



Advanced Medical Solutions Group plc  
Annual Report 2016



Creating quality  
outcomes

## About Us

Advanced Medical Solutions is a leading developer and manufacturer of innovative and technologically advanced products for the global surgical and advanced woundcare markets.

Our primary focus is to create quality outcomes for our customers, patients and shareholders.

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## Highlights 2016

# Creating quality outcomes through our financial strength

## Financial

	2016	2015	Reported growth	Growth at constant currency <sup>1</sup>
Group revenue (£ million)	<b>82.6</b>	68.6	20%	13%
Adjusted <sup>2</sup> operating margin (%)	<b>23.9</b>	25.4	(150bps)	–
Adjusted <sup>2</sup> profit before tax (£ million)	<b>19.7</b>	17.4	13%	–
Profit before tax (£ million)	<b>19.1</b>	17.0	12%	–
Adjusted <sup>2</sup> diluted earnings per share (p)	<b>7.66</b>	6.86	12%	–
Diluted earnings per share (p)	<b>7.38</b>	6.68	10%	–
Net operating cash flow <sup>3</sup> pre-exceptional items (£ million)	<b>22.3</b>	22.5	(1%)	–
Net cash (£ million) <sup>4</sup>	<b>51.1</b>	34.2	49%	–

Proposed final dividend of 0.62p per share, making a total dividend for the year of 0.92p (2015: 0.80p), up 15%

## Business

→ Good sales progress across all Business Units:

- Branded Distributed up 42% to £20.8 million (2015: £14.6 million), and up 30% at constant currency
- Branded Direct up 10% to £24.6 million (2015: £22.3 million), and up 3% at constant currency
- OEM up 16% to £32.1 million (2015: £27.7 million), and up 12% at constant currency
- Bulk Materials up 33% to £5.2 million (2015: £3.9 million), and up 21% at constant currency

→ Continued strong performance in the US with LiquiBand® tissue adhesive range:

- Revenues up 56% to £12.5 million (2015: £8.0 million) and 39% at constant currency
- As at 31 December 2016, market share by volume<sup>5</sup> increased to 23% (June 2016: 19%) and initial 20% target share achieved in the combined hospital and non-hospital market

→ Successful launch of antimicrobial and atraumatic foam dressings into Europe

→ Antimicrobial dressing revenues including both silver and PHMB (Polyhexamethylene Biguanide) up 13% to £17.5 million (2015: £15.5 million) and 9% at constant currency

→ Sales of the hernia mesh fixation device, LiquiBand® Fix8™ increased 73% to £1.7 million (2016: £1.0 million), 68% at constant currency, and is in use in 25 countries; now preparing for Pre Market Approval (PMA) in the US

→ German and Czech RESORBA® business up 15% to £13.1 million (2015: £11.3 million) and 4% at constant currency

→ Successful launch of RESORBA® sutures into the US

→ ActivHeal® business declined 5% to £6.0 million (2015: £6.4 million)

## Group revenue

# £82.6m

(2015: £68.6m)

## Adjusted<sup>2</sup> profit before tax

# £19.7m

(2015: £17.4m)

## Adjusted<sup>2</sup> diluted earnings per share

# 7.66p

(2015: 6.86p)

## Net cash<sup>4</sup>

# £51.1m

(2015: £34.2m)

<sup>1</sup> Constant currency removes the effect of currency movements by re-translating the current period's performance at the previous period's exchange rates

<sup>2</sup> All items are shown before exceptional items which were £0.4 million (2015: £nil) and amortisation of acquired intangible assets which, in 2016, were £0.2 million (2015: £0.4 million) as defined in the financial review

<sup>3</sup> Operating cash flow is arrived at by taking the operating profit for the period before exceptional items of £0.4 million (2015: £nil), depreciation, amortisation, working capital movements and other non cash items

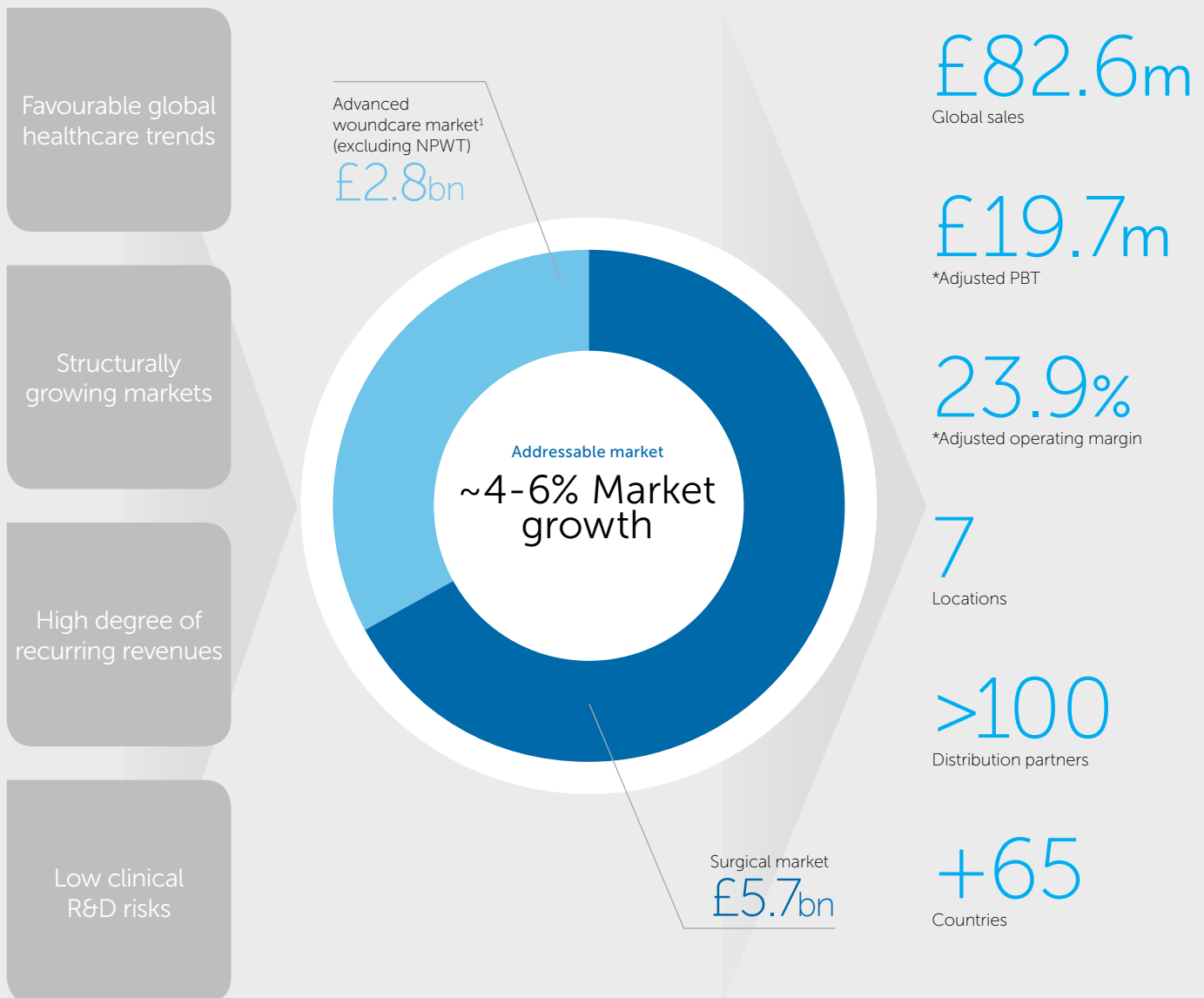
<sup>4</sup> Net cash is defined as cash and cash equivalents plus short term investments less financial liabilities and bank loans

<sup>5</sup> Data supplied by Global Healthcare Exchange

## Our Markets

# Creating quality outcomes for the global surgical and advanced woundcare markets...

Our addressable market is large and growing.



\* Adjusted PBT and adjusted operating margin are shown before amortisation of intangible fixed assets and exceptional items.

<sup>1</sup> Advanced woundcare market includes alginates, gelling fibre dressings, contact layers, hydrocolloids, hydrogels, superabsorbents, silvers/other antimicrobials and foams. It excludes Negative Pressure Wound Therapy (NPWT).

Company Overview
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## Our Brands

# ...through quality respected brands

### LiquiBand®

Our range of medical adhesives, based on cyanoacrylate. We have a range of formulations and applicators for topical skin closure.

We have approval to use the adhesive internally in Europe for hernia mesh fixation with our LiquiBand® Fix8™ device. Work has started to gain approval for this device in the US.



### RESORBA®

Our comprehensive range of sutures sold in Europe and the Rest of the World. Approval to sell our sutures in the US was obtained in September 2015 and a range of sutures for dental use were launched in the US in 2016.

We also have a range of haemostats based on collagen approved for use in Europe.

RESORBA® sutures and haemostats can be used for both surgical and dental applications.

### ActivHeal®

Our brand of advanced woundcare products that are sold to the NHS in the UK, providing significant cost savings to payor without compromising on clinical effectiveness.





## Chairman's Statement

# Creating quality outcomes...

AMS has had another year of strong performance and continues to progress as a leading, international provider of high quality, high value, innovative and technologically advanced products for the surgical and advanced woundcare markets. We are pleased that we have delivered another year of strong revenue growth, profit performance and good cash generation.

I am pleased to report a 20% increase in revenue to £82.6 million (2015: £68.6 million), representing growth of 13% on a constant currency basis and an increase in adjusted<sup>6</sup> profit before tax before exceptional items of 13% to £19.7 million (2015: £17.4 million), and an increase in profit before taxation of 12% to £19.1 million (2015: £17.0 million). The continued strong cash flow generation of the business has resulted in the Group ending the year with net cash of £51.1 million (2015: £34.2 million).

Our strategy of having multiple products and multiple routes to market continues to pay off and we have made good progress across all Business Units in the last year. Whilst revenue growth was steady in our Branded Direct Business Unit, our Branded Distributed Business Unit's success in the US has continued with LiquiBand® gaining market share, and surpassing our initial 20% target market share. We have also launched a range of dental sutures into the US through a new partner and we intend to expand our distribution network more widely by targeting market opportunities in Asia-Pacific and South America.



## Revenue

+20%

+13%\*

to **£82.6m**

(2015: £68.6m)

\* at constant currency

## Adjusted\* profit before tax

+13%

to **£19.7m**

(2015: £17.4m)

\* Profit is shown before amortisation of intangible assets and exceptional items

Our OEM and Bulk Business Units have performed well. Our partners have delivered good growth supported by a number of new foam product launches. This follows on from our success with LiquiBand® Fix8™ Hernia Mesh Fixation Device, our first surgical device using medical adhesive inside the body, with plans in place for open surgery hernia use and other secondary indications subject to regulatory approval. The success of these launches demonstrates the strength and breadth of our innovation and our product development pipeline.

The Board is proposing a final dividend of 0.62p per share, making a total dividend for the year of 0.92p per share (2015: 0.80p), an increase of 15%. If approved at the Annual General Meeting, this dividend will be paid on 16 June 2017 to shareholders on the register at the close of business on 26 May 2017.

On behalf of the Board, I would like to thank all of our employees for their contributions during the past year which have been central to the Company's strong performance. I would also like to thank our customers, suppliers, business partners and shareholders for their continued support in helping AMS achieve its goals.

We ensure that the Group is managed in accordance with the UK Corporate Governance Code as far as is reasonably practicable, although it is not a requirement for an AIM quoted company. The Board believes that effective corporate governance will assist in the delivery of shareholder value and safe-guarding shareholders' long-term interests.

AMS continues to be in robust financial health and is well positioned to invest in both internal and external opportunities in line with the Group's long-term strategy priorities and growth objectives.

**Peter Allen**  
Chairman

28 April 2017

## ...through strong governance



"AMS continues to be in robust financial health and is well positioned to invest in both internal and external opportunities in line with the Group's long-term strategic priorities and growth objectives."

**Peter Allen**  
Chairman

<sup>6</sup> All items are shown before amortisation of acquired intangible assets which, in 2016, was £0.2 million (2015: £0.4 million) as defined in the Financial Review and before exceptional items which were £0.4 million (2015: £nil)

## Chief Executive's Statement

# Creating quality outcomes...

I am pleased to report another strong set of results across the Group. Our revenue has increased 20% to £82.6 million (2015: £68.6 million) and we have improved our adjusted<sup>6</sup> profit before tax and before exceptional items by 13% to £19.7 million (2015: £17.4 million), marking the twelfth consecutive year we have delivered growth in revenue, profits and earnings per share.

We continue to deliver on our strategy for growth by expanding into new geographies, increasing our distribution of surgical products through our direct sales forces, enhancing our product portfolio and providing high quality products that add value to payors in our advanced woundcare and surgical markets.

### Branded Distributed

The Branded Distributed Business Unit reports the sales of our brands through third party distributors where the Group does not have a direct sales force.

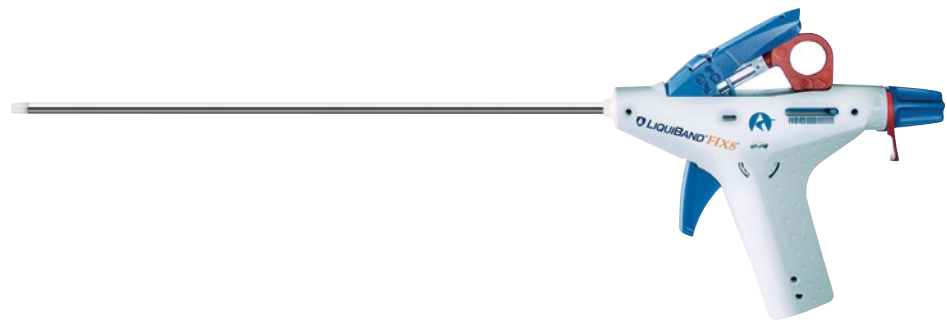
Branded Distributed reported revenue was 42% higher at £20.8 million (2015: £14.6 million) and 30% higher at constant currency. The main contributor to this growth continues to be the sales of our LiquiBand<sup>®</sup> range of products into the US, which accounted for 60% of the Business Unit's total sales.



<sup>6</sup> All items are shown before amortisation of acquired intangible assets which, in 2016, was £0.2 million (2015: £0.4 million) as defined in the Financial Review and before exceptional items which were £0.4 million (2015: £nil)



Right: **LiquiBand®Fix8™ Hernia Mesh Fixation device**



## ...for our employees, customers and for patients

“2016 was the twelfth consecutive year we have delivered growth in revenue, profits and earnings per share.”

**Chris Meredith**  
Chief Executive Officer

### **LiquiBand® in the US**

Sales of LiquiBand® in the US increased by 56% to £12.5 million (2015: £8.0 million) at reported currency and by 39% at constant currency. We have now increased our volume market share in the US market to 23.7%<sup>7</sup> up from the half year and exceeding the initial target of 20% set when we first launched this product into the US in 2010.

Our LiquiBand® range of products utilises different formulations of cyanoacrylate that meet the needs of the surgeon and are sold by our distributors throughout the whole of the US. LiquiBand® products combine cyanoacrylate adhesive technology with innovatively designed applicators that are able to meet the requirements of the surgeon and the treatment of the full spectrum of wounds that they need to close and protect. Our US based product sales specialists continue to work closely with our distributors to convert more hospitals and we are now targeting a further 10% market gain above our initial target over the next three years, to take our market share by volume to at least 30%.

### **LiquiBand® in the EU and Rest of the World (ROW)**

Outside of the US, in the EU and ROW, our sales of LiquiBand® have increased by 29% to £2.2 million (2015: £1.7 million) at reported currency and 28% at constant currency. We have now started to increase our sales in Asia-Pacific by signing distributorships in these regions and are supporting these with personnel based in the region. We are already seeing some early success with an additional seven distributorships agreed, selling our tissue adhesives, haemostats and sutures. This provides a significant opportunity for us in the medium-term.

Our regulatory approval process for LiquiBand® in China has proved challenging and has been paused. The tissue adhesive market in China is small and nascent and will take some time to develop. In the meantime we will invest resources into gaining access into the more readily accessible markets in Asia and the Middle East.

<sup>7</sup> Data supplied by Global Healthcare Exchange

## Chief Executive's Statement continued

**Hernia Mesh Fixation Device - LiquiBand® Fix8™**  
AMS received approval to market LiquiBand® Fix8™ in Europe in May 2014. This was the Group's first application using medical cyanoacrylate technology inside the body. It is used to hold hernia meshes in place within the body instead of traditional tacks and staples. This accurate laparoscopic application of adhesive is expected to reduce surgical complications, in particular the potential pain associated with the use of tacks and staples, thereby improving the patient experience and reducing healthcare costs overall.

Surgeon response to LiquiBand® Fix8™ has been very positive about the ease of use of this device and the benefit it brings to patients regarding the reduced incidence of post-operative pain. Sales of LiquiBand® Fix8™ in our Branded Distributed Unit increased by 69% to £1.1 million (2015: £0.7 million). A number of surgeons have endorsed the product and have provided valuable feedback about enhancements to the device as well as other possible non-hernia applications. The Company is actively exploring these opportunities. Having had more than 12 months' feedback from European usage, we have made improvements to the device. We are now in a position to start the process to gain approval to market this device in the US. As this will be a first-to-market device into the US, the regulatory process will be a full Pre Market Approval (PMA) involving clinical trials. Our estimate is that it will take around three years to achieve, requiring an investment of at least £3.0 million.

### **RESORBA®**

Sales of RESORBA® products to all export markets (excluding Russia) increased by 25% at reported currency to £3.9 million (2015: £3.1 million), and by 12% at constant currency. Within this, our sales of dental products have increased 33% to £1.9 million and 20% at constant currency. This includes our first sales of dental sutures into the US following their approval from the FDA in 2015.

We launched a range of dental sutures into the US with a specialised dental distributor in March 2016 and have achieved £0.2 million of sales in the first year. Gaining US approval for the RESORBA® product range has been an aim for the Group since we acquired the business in late 2011 and now provides a significant opportunity for the Group in the medium-term. The total US surgical suture market is estimated to be in excess of \$1 billion in size and is dominated by a few major brands.

Sales in Russia increased by 28% at constant currency, and increased 29% at reported currency to £1.0 million (2015: £0.8 million) reflecting improved market conditions.

### **Research and Development**

In R&D our focus is on continuing to improve the formulations of the base monomers that are used in our adhesives as well as improving the design and innovation around our devices. We have modified the tip and priming mechanism of our hernia fixation device following surgeon feedback and have started the process to get FDA approval to sell this product into the US.

Development work has also started on an open hernia mesh fixation device which we hope will gain approval in Europe this year.

In addition, work has begun on gaining approval in Europe for the LiquiBand® Fix 8™ device for new indications and it is expected we will be selling the first of these in 2018.

### **Branded Direct**

The Branded Direct Business Unit reports sales of our branded products through our own sales teams in the UK, Germany and Czech Republic. Reported revenue increased 10% to £24.6 million (2015: £22.3 million) and grew by 3% at constant currency.

### **UK**

Within the UK we supply our range of woundcare dressings, ActivHeal® into the NHS, supplying both hospitals and community care. We supply LiquiBand®, haemostats and sutures as part of our surgical offering.

### **ActivHeal®**

ActivHeal® is our range of high quality woundcare dressings that offer the NHS significant cost savings without compromising on clinical outcomes or patient care. Sales of our ActivHeal® range decreased by 5% to £6.0 million (2015: £6.4 million) as we failed to make up the lost ground that occurred during destocking in the first half of the year. We have been disappointed by this performance and have taken a number of initiatives to reinvigorate sales. We have refocused our sales efforts, provided further training to our commercial team and have enhanced our education and marketing materials. We have also strengthened our brand by broadening the product range being offered to include our antimicrobial and atraumatic foam dressings. ActivHeal® offers a compelling proposition for the NHS and remains a significant opportunity for the Group.

**LiquiBand®**

Sales of LiquiBand® into the Accident and Emergency Room (A&E) in the UK increased 1% to £2.3 million (2015: £2.3 million), reversing the decline of the prior year and addressing the competitive challenges we have seen, while sales of LiquiBand® into the Operating Room (OR) increased 31% to £0.9 million (2015: £0.7 million). We are confident of the market opportunity for LiquiBand® in the UK, particularly in the Operating Room. Sales of LiquiBand® Fix8™ in the UK increased to £0.1 million (2015: £0.05 million).

**Germany and the Czech Republic**

Germany is one of the key markets in Europe and sales of LiquiBand® in Germany, and the Czech Republic, increased 20% at reported currency to £1.7 million (2015: £1.4 million) and by 8% at constant currency, while sales of LiquiBand® Fix8™ increased 88% to £0.5 million (2015: £0.2 million). We are pleased with the steady progress we are making in converting doctors and surgeons to the benefits of LiquiBand® and LiquiBand® Fix8™.

**RESORBA®**

Sales of RESORBA® branded products in Germany and the Czech Republic increased 15% at £13.1 million (2015: £11.3 million) at reported level and 4% at constant currency. Within this, sales of haemostats increased by 21% to £3.9 million (2015: £3.3 million) and by 9% at constant currency, sales of sutures and collagens into the dental market increased by 14% to £3.5 million and by 3% at constant currency, whilst sales of sutures into hospitals were increased by 11% to £4.7 million (2015: £4.1 million) and flat at constant currency. We are seeing some success in targeting smaller accounts that should prove quicker to convert. However, it can take some time for conversions to be fully effective. We believe our ability to supply a comprehensive range of high quality sutures that provide cost savings to hospitals remains compelling.

Sales of RESORBA® sutures and haemostats into the NHS increased by 18% to £0.2 million (2015: £0.2 million) and this still remains a sizeable opportunity for us, even though conversion remains slower than we would like.

**Research and Development**

In R&D, our focus is on extending the attributes of our collagens to meet the needs of dental surgeons as well as including new antibiotics in our haemostats. We also may consider licensing our technology to other parties if this will result in products being quicker to launch. Longer term we are looking to develop innovative applications for collagen to address unmet clinical needs or improve the outcome of current surgical procedures.

**OEM**

The OEM Business Unit reports the sales of products that are sold under third parties' brands. We have been working with several of the world's major woundcare companies for a number of years. We provide manufacturing services to supply their woundcare dressings, new products they can incorporate into their portfolio of brands, as well as regulatory assistance in obtaining product approvals in overseas markets.

OEM revenue increased by 16% at reported currency to £32.1 million (2015: £27.7 million) and by 12% at constant currency.

Our OEM business is dependent on the success of the customers that our partners serve and the outcome of their strategies. Historically, it is prone to volatility as a result of ordering patterns, pipeline filling associated with new product launches and variability surrounding tender award allocations. Consequently, revenues and product mix can vary from year to year and can impact operating margin. In general, as we work with a large number of partners, the potential effects of this volatility are mitigated. Through the latter part of 2016 we have identified that there has been a slowdown in activity in the Middle East resulting in delays in the determination of some hospital tender awards; this is having an impact on some of our partners that have significant business in the region. We are yet to see a reversal of this trend in 2017. This may impact performance of this Business Unit in the short term, however, we continue to believe in the long-term potential of this growth market.

In 2016 we introduced two new ranges of foam products; our antimicrobial foam range containing Polyhexamethylene Biguanide (PHMB) and our atraumatic foam range incorporating silicone, facilitating easy dressing removal from sensitive skin. These have been successfully launched this year.

## Chief Executive's Statement continued

We received CE approval in Europe for our antimicrobial dressing on 1 September 2015. PHMB has been shown to be effective against several bacteria including, amongst others, Staphylococcus Aureus including the methicillin resistant type, (MRSA) and Escherichia Coli (E-Coli) and this dressing may be used throughout the healing process on moderate to heavily exuding chronic and acute wounds that are infected or are at risk of infection as well as on pressure ulcers, leg and foot ulcers, diabetic ulcers and surgical wounds.

Our PHMB foam dressing range augments our antimicrobial, silver alginate dressing ranges and provides an alternative method of treating infected wounds. We are currently working to achieve approval for our PHMB foam dressings in the US and once this is received we expect to be able to launch later this year.

Our silver alginate business grew by 4% to £16.2 million (2015: £15.5 million) at a reported level, but sales were flat at constant currency with the silver range taken by one specific partner being particularly affected by the slow-down in the Middle East. Excluding this partner's sales, the rest of the silver alginate business grew 5% at constant currency.

Our new PHMB dressings may have had some impact on our silver alginate business, however, our combined sales of all antimicrobial ranges have increased by 13% at a reported level to £17.5 million (2015: £15.5 million) and by 9% at constant currency.

The launch of our range of atraumatic foam dressings into our advanced woundcare range has further extended our foam portfolio and sales of all our foam-based dressings have increased 196% to £5.3 million (2015: £1.8 million) and by 191% at constant currency.

Sales of other woundcare products have also continued to perform well and have increased by 9% to £10.5 million (2015: £9.7 million) and by 5% at constant currency.

During 2016, we renegotiated the supply agreement with an OEM partner for collagen products, from an exclusive to a non-exclusive arrangement, allowing us to now supply an enhanced range of collagen products through our distributors into the EU and through our direct sales force in the UK. In the medium-term, we expect increased sales in both our Branded Direct and Branded Distributed Business Units, as our collagen product portfolio is extended. As anticipated, given that the OEM partner is no longer required to meet a minimum amount of sales to maintain exclusivity, this has resulted in a decline of the sales of collagen products in the Business Unit, which reduced by 85% to £0.1 million and by 87% at constant currency.

### **Research and Development**

We continue to work on extending our advanced woundcare portfolio with focus on extending our antimicrobial range, improving the absorbency of dressings and combining a number of materials to enhance product performance.

### **Bulk Materials**

The Bulk Materials Business Unit reports sales of bulk materials to third party converters as well as supplying foam into the OEM and Branded Direct Business Units as a key material in our foam-based wound dressings.

Bulk Materials revenue increased by 33% at reported currency to £5.2 million (2015: £3.9 million) and by 21% at constant currency.

Rollstock foam contributed around 93% of Bulk Materials revenue and good growth was seen by several partners.

### **Research and Development**

In R&D, the focus is on developing new foam formulations, working in conjunction with the OEM Business Unit.

### **Operations**

#### **Efficiency and gross margins**

We continue to make operational improvements by reducing set up times, eliminating non-value added activities and increasing outputs wherever possible. These incremental efficiencies help to improve gross margins across the Group.

The launches of the two new foam dressing ranges have required new converting processes to be developed and the success of the launches has resulted in significant volumes of new product being required. We are pleased that we met these significant volume demands, however, the initial efficiencies of these processes have been lower than for our more established ranges and lower than we would expect to obtain on a regular basis. We estimate that these operating effects have had a negative impact of around 400 basis points on the operating margins for the OEM Business Unit, where most of the sales of these products have been recorded. Changes are currently being made to the manufacturing processes to improve our efficiencies and we would expect to see margin improvement in 2017.



**Capacity and resource**

Investment is being made in The Netherlands to increase our foam capacity by approximately 40%. A new line is expected to be operational in the second half of 2017.

We continue to invest in improving our ERP (Enterprise Resource Planning) management and reporting systems and having already successfully completed the implementation in Winsford, Plymouth and The Netherlands facilities where we have converted to Oracle ERP. We are now working on implementing Oracle ERP in Germany. The project is expected to complete in the second half of 2017.

**Regulatory and quality assurance**

With the regulatory framework becoming increasingly complex, we have continued to invest in both Regulatory and Quality functions and systems to ensure that we are able to support our partners with winning approvals in new markets as well as obtaining approval for our own products.

The FDA conducted its first ever routine inspection at the Group in June 2016 at our Winsford site and we were pleased with the positive outcome.

On the back of our success with LiquiBand® Fix 8™ in Europe we have started work to gain approval to market this product in the US which will involve a full PMA and is likely to take at least three years with an investment of at least £3 million.

We are also working on identifying the regulatory pathway to approve the inclusion of antibiotics in collagens and progressing with obtaining approval to sell our collagen products in the US. The latter approval is expected in late 2017 / early 2018.

Our regulatory approval process for LiquiBand® in China has continued to be challenging. Having resubmitted our files to the Chinese FDA further extensive Chinese based clinical trials have been requested. As there is a lack of clarity around the nature of the trials we have decided to cease the process until there is more certainty around what is required for approval.

**Our culture**

As a Group that is highly dependent on the innovation and creativity of our employees for our future growth and success, it is important that we have a culture and set of values that is clearly understood across the business. We have adopted the business motto of 'The AMS Care, Fair, Dare approach' to summarise our culture, underpin our values, and to deliver results, building a sustainable future for our business. Under this motto, we have defined the principles and expectations of how we will operate together to deliver success.

We recognise the importance of our people to the Group and that it is only by their effective engagement that we will continue to be highly successful. We value their commitment and determination to achieve and deliver good results. Our working environment encourages openness, teamwork, an understanding of others' needs and the ability 'to make a difference'. We continue to develop the talent at AMS by training and by providing a place to work where our employees feel valued, incentivised and fulfilled.

**Acquisition strategy**

The Group is actively looking for businesses that fit its acquisition strategy. During the period, an opportunity was identified and work undertaken to understand the business in more detail. As a result of the outcome of this work, a decision was taken not to proceed. An exceptional charge of £0.4 million has been incurred relating to this activity. The Group continues to actively review suitable acquisition opportunities.

**Referendum vote to leave the EU**

There has been no immediate impact on the Group's operations following the UK's referendum vote to leave the EU other than the positive impact on currency exchange rates. The Group is considering the potential impact to the business once the UK leaves the EU and has started to plan for this outcome.

## Chief Executive's Statement continued

### Summary and Outlook

We have delivered a reported 20% revenue growth, 13% at constant currency, with good profitability and cash generation during the year.

All Business Units have delivered growth at constant currency with US sales, in particular, delivering a very strong performance and, notwithstanding the OEM slight headwinds in emerging markets, we expect this to continue in the coming year. We have been very pleased with the launches of our antimicrobial and atraumatic foam dressings into our advanced woundcare range. With the continued success of our LiquiBand® Fix8™ Hernia Mesh Fixation Device, we are seeking approval for new indications and new market entry.

We continue to invest in research and development to keep improving our product range and deliver innovation that benefits payors and patients.

We are confident that the Group, with its highest quality products, is well placed to deliver growth and we remain optimistic about the prospects for our future.

**Chris Meredith**  
Chief Executive Officer

28 April 2017

Right: **Patient focus**  
Creating quality outcomes  
for patients using our silicone  
foam dressing



## Our Strategic Objectives

# Creating quality outcomes by delivering on our strategy

To become the best developer, producer and supplier of innovative medical devices in the areas of accelerating healing and managing wounds, minimising adverse surgical outcomes, and sealing and closing tissue.

### Market Outlook

There is a rising incidence of both chronic and acute wounds.

Predisposing factors are on the increase such as obesity, diabetes and old age. There is also an increasing demand from emerging healthcare markets.

A continuing trend towards minimally invasive surgery further provides opportunities for innovations and market growth.

Healthcare economics demand cost-effective product solutions. AMS's mission is to meet these needs.

### Strategy for growth

- 1 Add value for payors in advanced woundcare and surgical markets
- 2 Increase direct distribution of surgical products through AMS's sales forces in target markets
- 3 Continued geographic expansion
- 4 Enhance product portfolio, technologies and pipeline through investment in in-house R&D, acquisitions and licensing

## Our Business Model

# Creating quality outcomes through our knowledge and experience in growing markets...

## Our Value Chain

### New product development

Research and development  
Design and testing

- Separate R&D teams focusing on different technologies:
  - Winsford: foams, fibres and antimicrobials
  - Plymouth: tissue adhesives
  - Nuremberg: haemostats and sutures
- Collaborations with universities, key opinion leaders, surgeons and tissue viability nurses
- Extensive patent portfolio: over 30 patent families
- Stage gate process

### Marketing and regulatory approval

Bringing product to market  
Regulatory approval in key markets

- Strong regulatory affairs department with world-wide regulatory experience
- Regulatory registrations in over 70 countries
- Clinical support teams supporting both product development and post market surveillance

### Operations

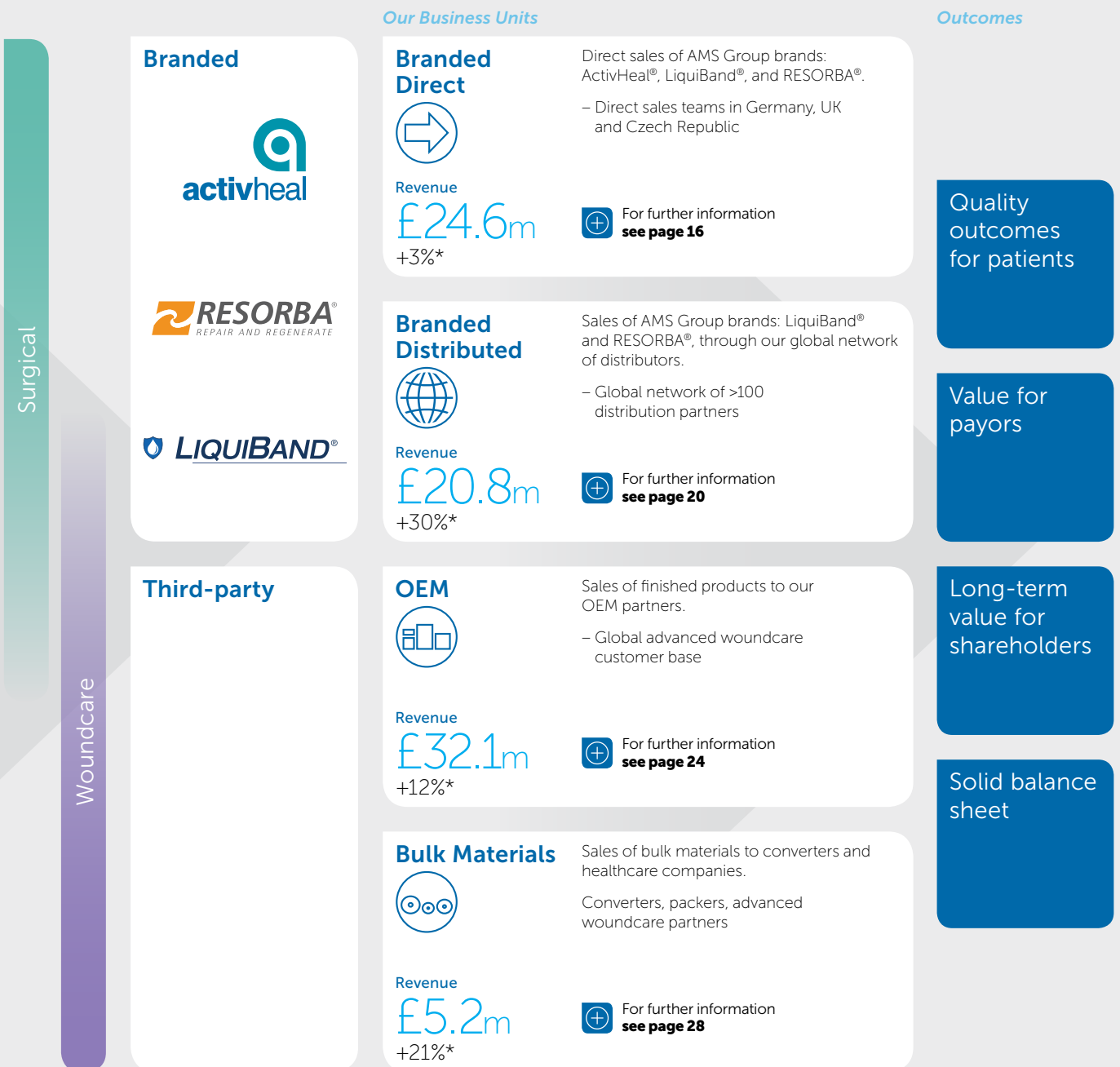
Manufacturing and security of supply  
Quality assurance

- Six manufacturing sites
- All manufacturing sites compliant with ISO 13485 and FDA CFR 21 part 820 Quality Management System (QMS)



# ...and clear routes to market through our divisions

## Our Routes to Market



\* at constant currency

## Business Units

# Branded Direct



The Branded Direct Business Unit is responsible for selling our brands: ActivHeal<sup>®</sup>, LiquiBand<sup>®</sup> and RESORBA<sup>®</sup> to end users in the UK, Germany and Czech Republic through our own direct sales teams. This Business Unit is also responsible for directing R&D for sutures and collagens.

### Strategy

To increase market share of the Group's brands in the UK, Germany and the Czech Republic by:

#### ActivHeal<sup>®</sup>

- Ensuring ActivHeal<sup>®</sup> is included in relevant NHS tenders
- Extending the ranges used in hospitals where ActivHeal<sup>®</sup> is listed
- Converting new hospitals to ActivHeal<sup>®</sup>
- Broadening the product range offered e.g. atraumatic and antimicrobial foam dressings

#### LiquiBand<sup>®</sup>

- Increasing usage in the Operating Room (OR) in the UK, Germany and Czech Republic through our existing sales teams
- Promoting the hernia mesh fixation device LiquiBand<sup>®</sup> Fix8<sup>™</sup> into the OR in the UK and Germany

#### RESORBA<sup>®</sup>

- Ensuring that RESORBA<sup>®</sup> is included in German and UK hospital tender processes
- Targeting Group Purchase Organisations (GPOs) in Germany
- Increasing the usage in the OR in the UK by cross-selling RESORBA<sup>®</sup> sutures and collagens with LiquiBand<sup>®</sup> products
- Extending the attributes of our collagens by including antibiotics
- Developing new applications of collagens for unmet surgical needs





## Business Units continued

# Branded Direct continued



**Jeff Willis**  
Business Unit Director

Revenue  
**+10%**  
+3%\*  
**to £24.6m**  
(2015: £22.3m)  
\* at constant currency



Above: **RESORBA® suture range**

ActivHeal® is the Group's brand of advanced woundcare dressings that it sells into the NHS in the UK. The proposition of this brand is that it provides a range of 'good value', advanced woundcare dressings that deliver cost savings to the NHS without compromising on clinical outcomes or patient care. The ActivHeal® range is supported by a dedicated team of experienced healthcare professionals and by online education modules that provide training on the treatment of wounds. With the NHS operating under budgetary constraints, ActivHeal® continues to provide a good growth opportunity for the Group. The range has now been extended to include atraumatic silicone foam dressings, silicone wound contact layers and antimicrobial PHMB foam dressings.

The LiquiBand® range of medical adhesives and sealants, based on cyanoacrylate, is used to close and protect wounds in a safe and secure way. In the UK, LiquiBand® is well recognised in the majority of Accident and Emergency (A&E) units where its attribute of high strength makes it the product of first choice for closing trauma wounds.

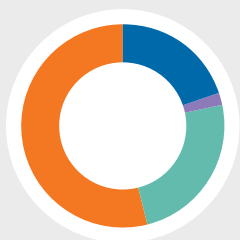
We also sell LiquiBand® into the OR in the UK and Germany where it is used to make the final topical skin closure following the surgical procedure.

In 2014 we launched our innovative LiquiBand® Fix8™ device which uses our cyanoacrylate technology within the body for hernia mesh fixation.

Below: **RESORBA® Collagen**



### 2016 Sales Branded Direct (£24.6m)



LiquiBand®	4.8
LiquiBand® Fix8™	0.5
ActivHeal®	6.0
RESORBA®	13.3



RESORBA®'s high quality comprehensive suture range includes several brands such as CAPROLON®, GLYCOLON®, MOPYLEN® and RESOPREN® that are sold into hospitals, private practices and to oral surgeons. Our suture range is extensive and includes both absorbable and non-absorbable sutures, mono and multifilament threads, and a wide range of needle shapes and sizes.

RESORBA®'s haemostat range includes COLLAGEN-resorb and GENTA-COLL-resorb. The latter is a very pure collagen that includes the antibiotic gentamicin for use in wounds where there is a high risk of infection. Combining the suture and collagen technologies, RESORBA® has developed products and brands that are particularly applicable to the oral surgery market, e.g. PARASORB® Sombrero® is a collagen cone used for dental implants.

The R&D focus of the Business Unit is on extending the attributes of our collagens and adding a range of antibiotics into our haemostats. Consideration may also be given to licensing technologies to other partners to increase speed to market.

Our model of providing 'high quality good value' ranges to the NHS is applicable to our RESORBA® suture range and we are actively working to promote our RESORBA® products within the NHS. We are also aiming to extend the use of RESORBA®'s sutures within the German hospital system.

Right: **GENTA-FOIL RESORBA®**  
in place within the middle joint  
of the index finger



## Creating quality outcomes with a proactive approach

### Joint infection following an incision with a utility knife

"Four days prior to presenting at the hospital, Mr F. had cut himself with a utility knife upon the middle joint of his right index finger (extensor). The wound was initially repaired using cutaneous sutures; following this the case was referred to our healthcare facility.

The patient began to experience increased swelling and tenderness upon palpation of the joint. Surgery revealed that the original incision had severed the central slip of the extensor tendon and had opened the articular capsule. A cloudy coloured liquid was draining from the location of the joint. A swab was taken and the area thoroughly rinsed. The cartilage of the adjacent articular surfaces was found to be intact, allowing for a preservative course of action to be taken. A GENTA-FOIL RESORBA® was cropped to meet the required size and shape and was then inserted into the joint with forceps.

A joint-spanning external fixator was placed along the extended finger in order to temporarily immobilise the joint. The swab collected during surgery produced a positive culture of Staphylococcus aureus and Staphylococcus sp. (coag neg). The fixator was used to immobilise the joint for four weeks, after which it was removed and then physiotherapy provided. There was no need to remove the GENTA-FOIL RESORBA®.

Outcome: Thanks to a proactive approach and the use of the external fixator to keep the joint immobilised, the implementation of GENTA-FOIL RESORBA® was a success with the joint being subsequently preserved."

Presented by

**Dr. med Vanessa Haug, Dr. med Thomas Pillukat,**  
Pillukat Clinic for Hand Surgery



for more detail please visit

[www.admedsol.com/our-brands/resorba](http://www.admedsol.com/our-brands/resorba)

## Business Units continued

# Branded Distributed



The Branded Distributed Business Unit is responsible for driving sales of our LiquiBand® and RESORBA® branded products to all markets where the Group does not have its own sales teams and sales are made through distributors. It is also responsible for directing R&D for medical adhesives and sealants.

### Strategy

The strategy of this Business Unit is to increase sales of the Group's brands in all markets where the Group does not have a sales force by:

#### Increasing the market share of LiquiBand® in the US:

- Partner with key distributors that access the US healthcare market
- Develop and launch new products
- Train partner personnel, and provide marketing and account support
- Targeting 30% market share by volume in the next three years

#### Developing and launching new products:

- Next generation internal applications of cyanoacrylate for fixation including new indications for LiquiBand® Fix8™ and new product variations for open hernia repair

#### Maximising opportunities across Europe, Asia-Pacific, the Middle East, and Latin America:

- Leverage the combined existing distributor network for LiquiBand® and RESORBA®
- Appointment of local regional Business Development and Product Training personnel to support customer sales activities

#### Accessing new markets:

- Gain regulatory approval for LiquiBand® topical skin adhesives, LiquiBand® Fix8™ and RESORBA® collagen products in select geographies
- Progress approval for LiquiBand® Fix8™ in the US
- Identify new market opportunities





## Business Units continued

# Branded Distributed continued



**Jeff Willis**  
Business Unit Director

### Revenue

**+42%**  
+30%\*  
**to £20.8m**  
(2015: £14.6m)  
\* at constant currency

### LiquiBand® in the US

**56%**  
+39%\*  
**to £12.5m**  
(2015: £8.0m)  
\* at constant currency

The Group works with many distributors to promote our LiquiBand® and RESORBA® range of products, accessing over 70 countries throughout the world.

One of the key growth drivers is accessing the US market. This is the largest market for LiquiBand® topical skin adhesives and continues to be a major focus for this Business Unit.

We have a range of formulations with different attributes. Some provide quick, precision closure and other formulations are more film forming. Having received FDA Approval in November 2015 for LiquiBand® Exceed™, our market share of the TSA market in the US has now increased to 23%.

LiquiBand® is also promoted and supported throughout the rest of the world.

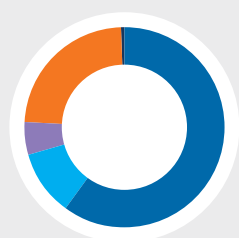
This Business Unit is also responsible for LiquiBand® Fix8™ which uses the cyanoacrylate technology within the body for hernia mesh fixation. Work is progressing to extend the application range of this product.



Above: **LiquiBand® Exceed™**

Our LiquiBand® Exceed™ product can be used to cover wounds of up to 30cm in length as well as a single device being suitable for intra-operative reuse for up to 90 minutes on a single patient.

### 2016 Sales Branded Distributed (£20.8m)



LiquiBand® US	12.5
LiquiBand® EU & ROW	2.2
LiquiBand® Fix8™	1.1
RESORBA®	4.9
Other	0.1

Development work on an open hernia mesh fixation device has started, which we hope will gain approval in Europe in 2017. Work has also begun on gaining approval in Europe for new indications for the LiquiBand® Fix8™ device.

The RESORBA® suture and collagen ranges are sold throughout Europe, the Middle East and Asia. Approval to market the majority of our suture range in the US was received in November 2015 and the first sales of sutures for dental applications were achieved in 2016.

During 2016 a supply agreement with an OEM partner for collagen products, including RESODURA® and GENTA-COLL®, was re-negotiated from an exclusive to a non-exclusive arrangement. This allows this Business Unit to supply an enhanced range of collagen products both in the EU and to the rest of the world.

This Business Unit also includes all sales made by our Russian subsidiary, which are made both by the direct sales team in Moscow and by the distributor network that the Moscow sales team supports throughout the rest of Russia.

## Creating quality outcomes with innovative products

### Transabdominal preperitoneal (TAPP) laparoscopic repair for inguinal hernia using glue fixation

“Glue fixation seems to offer a proper and safe mesh fixation during TAPP repair, without any concerns regarding dangerous areas and no postoperative pain. This allows a faster recovery and return to normal activity for the patients.”

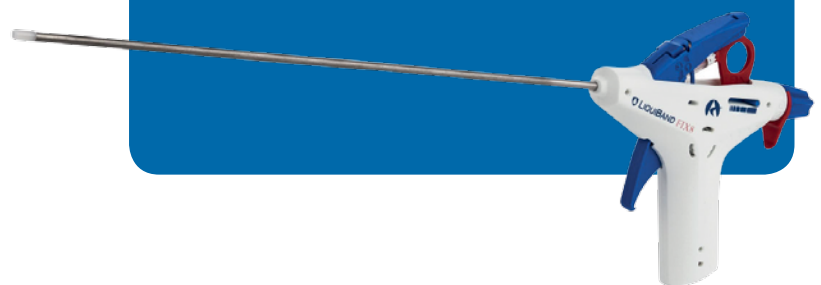
Presented by

**Dr Victor Calu** (Consultant Surgeon, Elias Emergency Hospital, Bucharest, Romania) at the European Association of Endoscopic Surgery conference in Amsterdam from 15-18 June 2016.



for more detail please visit

[www.admedsol.com/our-brands/liquiband](http://www.admedsol.com/our-brands/liquiband)



## Creating quality outcomes for our US partners

**“We think the needs of our customers have been under met for years with existing adhesives.**

**In AMS, Medtronic has found a partner who has thoughtfully engineered a solution that benefits patients, clinicians and hospitals, as well as Medtronic itself.”**

**Christopher Ward,**

Vice President, marketing surgical innovations  
Medtronic PLC.



## Business Units continued

# OEM



The OEM Business Unit is responsible for supporting our business-to-business partners with a multi-product portfolio that is globally competitive and comprises our intellectual property, technology and know-how. It is responsible for directing R&D for our advanced woundcare products and technologies.

### Strategy

The strategy of this Business Unit is to support the Group's partners to be successful with the products we supply, and to increase their market share in our areas of technical expertise by:

#### Strong partner relationships:

- Key account management
- Reliability of service and quality
- Expansion of product portfolio
- Regulatory support for expansion into new markets
- Strong pipeline of innovative products with links with global reputable universities for new emerging technologies

#### Securing new partners through:

- Reputation for quality, customer service and regulatory capability to assist with expansion into new geographies

#### Develop new products including:

- Expansion of the foam portfolio
- Expansion of the fibre range
- Enhanced product performance







## Business Units continued

# OEM continued



**Becky Walmsley**  
Business Unit Director

### Revenue

**+16%**  
+12%\*  
**to £32.1m**  
(2015: £27.7m)

\* at constant currency



### Above: Antimicrobial dressings

Our R&D pipeline is delivering results with antimicrobial foam dressings and atraumatic foam dressing, launched in Europe

Unlike many of our competitors we offer a full design, development, manufacture and distribution service supported by regulatory, clinical and marketing professionals.

We partner with many of the world's leading healthcare companies, supplying them with finished packed products which are provided under their own brand. Our technologies include foams, fibres, collagens, hydrogels and hydrocolloids.

We are also able to add antimicrobials such as silver and PHMB to our platform technologies, which are a key growth driver for this Business Unit.

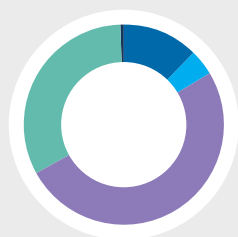
We support our partners to access new markets through our regulatory expertise with strong marketing collateral backed by clinical evidence.

Following approval in 2015, we successfully launched our PHMB foam dressing into Europe in 2016. PHMB is an antimicrobial effective against several bacteria including, amongst others, Staphylococcus Aureus including the methicillin resistant type, (MRSA) and Escherichia Coli (E-Coli). This dressing may be used throughout the healing process on moderate to heavily exuding chronic and acute wounds that are infected or are at risk of infection as well as on pressure ulcers, leg and foot ulcers, diabetic ulcers and surgical wounds. Approval to market this product in the US is ongoing and we expect to launch the product in the US in 2017.

We also successfully launched our atraumatic silicone product range into Europe and the US in 2016.

We continue to extend our product range by developing new products.

### 2016 Sales OEM (£32.1m)



Other foam products	4.0
PHMB foam	1.3
Silver alginate	16.2
Other woundcare products	10.5
Other	0.1

## Creating quality outcomes for chronic and acute wounds

### The management of pressure damage upon removal of full leg cast following fracture to the right patella

"The Silicone Non Border dressings were applied to the category 3 pressure ulcer to assist in the management of exudate, prevent adherence and trauma at dressing changes along with providing a moist wound environment to aid wound healing. Reducing the potential mechanism for pain at dressing changes helped promote patient comfort and improve clinical outcomes.

The dressing was able to provide effective exudate handling as no signs of maceration visible to the peri wound area, whilst maintaining a moist wound environment and promoting wound progression as the wound reduced in size and showed areas of new epithelial tissue. The Silicone Foam dressing was easy to apply and remove and was atraumatic to the patient and was able to aid in the management of friable, vulnerable traumatic damaged tissue, and the achievement of satisfactory clinical outcomes for both the patient and the clinician."

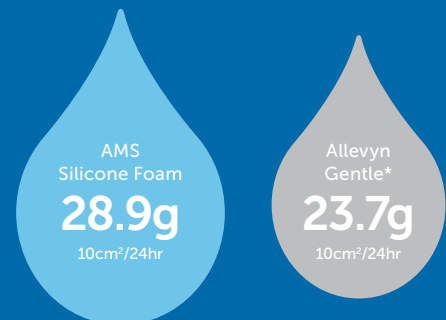
**Carolynne Sinclair**, Tissue Viability Nurse

 for more detail please visit <http://www.admedsol.com/our-divisions/oem-supply/fibres/>

### Performance

#### Total Fluid Handling Performance<sup>1</sup>

Be confident this foam can handle patient exudate.



#### Peel adhesion over 7 days<sup>1</sup>

Secure but pain free removal.



<sup>1</sup> Data on file 2016

\* Allevyn Gentle is a registered trademark of Smith & Nephew

## Business Units continued

# Bulk Materials



This Business Unit is responsible for providing Bulk Materials including foams, hydrocolloids, fibres and pattern coated films, to third party converters and partners who have their own converting capability. It is also responsible for supplying Bulk Materials within the Group.



**Becky Walmsley**  
Business Unit Director

### Revenue

**+33%**

+21%\*

to **£5.2m** (2015: £3.9m)

\* at constant currency

## Strategy

The strategy of this Business Unit is to:

**Extend the product offering through new product development**

**Expand commercial focus to new markets and customers**

**Reduce the cost of the foam process through operational improvements to enable partners to be more competitive**

Rollstock foam contributes the majority of sales from this Business Unit.

Our medical grade hydrophilic polyurethane foam is characterised by its ultrasoft, open-pored, medium density structure. It is very conformable and offers a high rate of absorbency with good lateral control and fluid uptake.

We are looking to extend our foam range. The development of our antimicrobial PHMB foam which was launched in 2016 is an example of the types of products we are working on.

We are also able to supply film membranes with excellent moisture vapour transmission rates as well as film-foam membranes that have applications in scar reduction.

As the range of foam products we manufacture increases, we are investing in increasing our foam making capacity in the Netherlands. Our new line, which will increase capacity by 40%, is expected to be operational in the second half of 2017.

Below: **Rollstock foam**





## Financial Review

# Creating quality outcomes and good financial performance

Group revenue increased by 20% to £82.6 million (2015: £68.6 million). At constant currency, revenue growth was 13%.

The Group uses alternative performance measures such as adjusted operating margin, adjusted profit before tax, net operating cash flow pre-exceptional items, together with current revenue measures restated at constant exchange rates, to allow the users of the accounts to gain a clearer understanding of the performance

of the business, allowing the impacts of amortisation, exceptional items and exchange rate volatility to be separately identified.

The Group incurred an exceptional expense of £0.4 million in the year relating to an aborted acquisition (2015: nil).

Amortisation of acquired intangible assets was £0.2 million in the period (2015: £0.4 million).

To aid comparison, the Group's adjusted income statement is summarised in Table 1 below.

**Table 1: Adjusted Income Statement**

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000	% Change
<b>Revenue</b>	<b>82,621</b>	68,596	20%
<b>Gross profit</b>	<b>47,427</b>	39,908	19%
Distribution costs	(1,047)	(951)	
Adjusted administration costs <sup>8</sup>	(27,293)	(22,138)	
Other income	621	589	
<b>Adjusted operating profit</b>	<b>19,708</b>	17,408	13%
Net finance costs	(3)	(45)	
<b>Adjusted profit before tax</b>	<b>19,705</b>	17,363	13%
Amortisation of acquired intangibles	(242)	(367)	
Exceptional Items	(361)	-	
<b>Profit before tax</b>	<b>19,102</b>	16,996	12%
Tax	(3,410)	(2,877)	
<b>Profit for the period</b>	<b>15,692</b>	14,119	11%
Adjusted earnings per share – basic <sup>9</sup>	<b>7.77p</b>	6.95p	12%
Earnings per share – basic <sup>9</sup>	<b>7.48p</b>	6.78p	10%
Adjusted earnings per share – diluted <sup>9</sup>	<b>7.66p</b>	6.86p	12%
Earnings per share – diluted <sup>9</sup>	<b>7.38p</b>	6.68p	10%

<sup>8</sup> Adjusted administration costs exclude amortisation of acquired intangible assets and exceptional items

<sup>9</sup> See Note 15 Earnings per Share for details of calculation

## Financial Review continued

Revenues were favourably impacted by approximately £4.9 million due to the effects of currency movements in the year. Gross margin reduced overall by 80bps due to adverse operational variances on new woundcare ranges, partly offset by mix changes and the favourable impact of currency movements.

Adjusted operating profit before exceptional items increased by 13% to £19.7 million (2015: £17.4 million) but the adjusted operating margin reduced by 150 bps to 23.9% (2015: 25.4%). Administration costs excluding exceptional items increased by 23% to £27.3m (2015: £22.1 million) due to currency movements

and further investment in selling and marketing, particularly to support the Branded Direct Business Unit. There was also a benefit from the translation of US dollar receivables. The Group expensed £2.3 million of R&D to the Income Statement (2015: £1.8 million). Spend as a percentage of sales increased to 2.8% (2015: 2.6%).

Profit before tax for the year was 12% higher at £19.1 million (2015: £17.0 million).

**Table 2: Taxation**

	%
<b>Weighted average Group tax rate</b>	<b>22.11</b>
<b>Loss utilisation and recognition</b>	<b>(1.06)</b>
<b>Patent box relief</b>	<b>(1.27)</b>
<b>R&amp;D relief</b>	<b>(0.96)</b>
<b>Expenses not deductible, prior year adjustments, depreciation and share based payments</b>	<b>(0.97)</b>
<b>Effective taxation rate</b>	<b>17.85</b>

The Group's effective rate of tax for the year was 17.9% (2015: 16.9%). This is reflective of the utilisation of previously unrecognised brought-forward UK tax losses, Patent Box relief and R&D tax credits. It also reflects the impact of blending profits and losses from different countries and the different tax rates associated with these countries. The effective tax rate of the Group is expected to increase in 2017, as the Group is no longer classified as a Small Medium Enterprise (SME) and will no longer be able to gain R&D tax credits at the SME rate. We estimate that this will increase our taxation rate by approximately 2%.

A reconciliation between the weighted average Group tax rate and the Group's effective rate is summarised in Table 2 above.

Earnings (excluding amortisation of acquired intangible assets and before exceptional items) increased by 12% to £16.3 million (2015: £14.5 million), resulting in a 12% increase in adjusted basic earnings per share to 7.77p (2015: 6.95p) and a 12% increase in adjusted diluted earnings per share to 7.66p (2015: 6.86p).

Profit after tax increased by 11% to £15.7 million (2015: £14.1 million), resulting in a 10% increase in basic earnings per share to 7.48p (2015: 6.78p) and a 10% increase in diluted earnings per share to 7.38p (2015: 6.68p).

The Board is proposing a final dividend of 0.62p per share, to be paid on 16 June 2017 to shareholders on the register at the close of business on 26 May 2017. This follows the interim dividend of 0.30p per share that was paid on 28 October 2016 and would, if approved, make a total dividend for the year of 0.92p per share (2015: 0.80p), a 15% increase on 2015.

The operational performance of the Business Units is shown in Table 3 on page 31. The adjusted profit from operations and the adjusted margin are shown after excluding amortisation of acquired intangibles. To aid comparison and in determining the operational margins of the individual Business Units, the revenue of the Bulk Materials Business Unit sales made to other Business Units of £1.8 million (2015: £0.8 million) is included.

**Table 3: Operating Result by Business Segment Year ended 31 December 2016**

	Branded Distributed £'000	Branded Direct £'000	OEM £'000	Bulk Materials £'000
<b>Revenue</b>	<b>20,753</b>	<b>24,553</b>	<b>32,070</b>	<b>7,040</b>
<b>Profit from operations</b>	<b>6,337</b>	<b>4,976</b>	<b>6,881</b>	<b>1,796</b>
<b>Amortisation of acquired intangibles</b>	<b>84</b>	<b>141</b>	<b>17</b>	<b>–</b>
<b>Adjusted profit from operations<sup>10</sup></b>	<b>6,421</b>	<b>5,117</b>	<b>6,898</b>	<b>1,796</b>
<b>Adjusted operating margin<sup>10</sup></b>	<b>30.9%</b>	<b>20.8%</b>	<b>21.5%</b>	<b>25.5%</b>
Year ended 31 December 2015				
Revenue	14,631	22,344	27,674	4,772
Profit from operations	4,366	5,235	7,139	814
Amortisation of acquired intangibles	127	214	25	–
Adjusted profit from operations <sup>10</sup>	4,493	5,449	7,164	814
Adjusted operating margin <sup>10</sup>	30.7%	24.4%	25.9%	17.1%

<sup>10</sup>Excludes amortisation of intangible assets and exceptional items

## Branded Distributed

The adjusted operating margin of this Business Unit increased to 30.9% (2015: 30.7%), supported by US sales growth, but was lower than the margin reported in H1 2016 (35.4%), reflecting a higher than usual proportion of US sales in H1 and an increase in business unit operating expenses as a result of investment in sales and marketing personnel.

## Branded Direct

The adjusted operating margin of this Business Unit reduced to 20.8% (2015: 24.4%) mainly due to continued investment in sales and marketing and was lower than the position at H1 2016 (23.7%) mainly due to the phasing of fee income which occurred in the first six months of the year.

## OEM

The adjusted operating margin of this Business Unit reduced to 21.5% (2015: 25.9%) due to adverse operational variances on new woundcare ranges albeit higher than the margin reported at H1 2016 (18.1%). It is worth noting that some of the margin benefit arising from the substantial increase in OEM foam sales is reported in the Bulk Materials Business Unit and is part of the reason for the increase in operating margin in that Business Unit.

## Bulk Materials

The adjusted operating margin of this Business Unit increased to 25.5% (2015: 17.1%), and improved from the position in H1 2016 (22.9%). Margins were affected by the higher volumes of production and sales, including a substantial increase in intercompany sales to the OEM Business Unit.

**Table 4: Geographic Breakdown of Group Revenues**

	2016 £ millions	% of total	2015 £ millions	% of total
<b>Europe (excluding UK and Germany)</b>	<b>21.4</b>	<b>25.9%</b>	19.1	27.8%
<b>Germany</b>	<b>18.3</b>	<b>22.1%</b>	13.4	19.5%
<b>UK</b>	<b>17.4</b>	<b>21.1%</b>	16.7	24.3%
<b>USA</b>	<b>23.5</b>	<b>28.5%</b>	17.8	25.9%
<b>Rest of the World</b>	<b>2.0</b>	<b>2.4%</b>	1.6	2.3%

## Geographic Breakdown of Revenues

The geographic breakdown of Group revenues in 2016 is shown in Table 4 above:

48% of the Group's sales are in Europe (excluding the UK) of which 59% are denominated in Euros. Approximately 95% of all sales to the US are denominated in US Dollars. The Group hedges significant transaction exposure by using forward contracts and options and aims to have 70% of its estimated transactional

exposure for the next 12 months hedged. The Group estimates that a 10% movement in the £:US\$ or £:Euro exchange rate will impact Sterling revenues by approximately 2.7% and 3.1% respectively and in the absence of any hedging this would have an impact on profit of 2.2% and 0.5%.

## Financial Review continued

Table 5 summarises the Group's cash flows.

	2016 £'000	2015 £'000
<b>Table 5: Group Cash Flows Year ended 31 December</b>		
<b>Adjusted operating profit (Table 1)</b>	<b>19,708</b>	17,408
Non-cash items	<b>4,023</b>	3,153
<b>Adjusted EBITDA<sup>11</sup></b>	<b>23,731</b>	20,561
Working capital movement	<b>(1,480)</b>	1,983
<b>Operating cash flow before exceptional items</b>	<b>22,251</b>	22,544
Exceptional items	<b>(361)</b>	–
<b>Operating cash flow after exceptional items</b>	<b>21,890</b>	22,544
Capital expenditure and capitalised R&D	<b>(2,536)</b>	(2,675)
Net interest	<b>(3)</b>	(47)
Tax	<b>(2,065)</b>	(1,253)
<b>Free cash flow</b>	<b>17,286</b>	18,569
Dividends paid	<b>(1,783)</b>	(1,521)
Proceeds from share issues	<b>868</b>	494
Exchange gains/(losses)	<b>553</b>	(621)
<b>Net increase in cash and cash equivalents</b>	<b>16,924</b>	16,921

<sup>11</sup>Adjusted EBITDA is earnings before interest, tax, depreciation, intangible asset amortisation, share based payments and exceptional items

Adjusted EBITDA increased by 15% to £23.7 million (2015: £20.6 million).

Working capital increased in the year in line with the growth of the business. 4.4 months of supply of inventory was held across the Group (2015: 4.4 months of supply). Trade receivable days were in line with prior year at 41 days (2015: 41 days) while trade payable days decreased slightly to 33 days (2015: 34 days).

The Group generated net cash from operating activities of £21.9 million (2015: £22.5 million) (see Table 5) and had net cash of £51.1 million (2015: £34.2 million) at the end of the year.

In the year, we invested £2.6 million in capital equipment, software and capitalised R&D (2015: £2.7 million), including ERP software and internally developed products.

The Group generated a free cash flow of £17.3 million in the year (2015: £18.6 million). The conversion of adjusted operating profit into free cash flow was 88% (2015: 107%).

The Group paid its final dividend for the year ended 31 December 2015 of £1.2 million (2015: for the year ending 2014, £1.0 million) on 10 June 2016, and its interim dividend for the six months ended 30 June 2016 of £0.6 million (2015: £0.6 million) on 28 October 2016.

In December 2014 the Group entered into a five-year, £30 million, multi-currency revolving credit facility with an accordion option under which AMS can request up to an additional £20 million on the same terms. The previous facility for £4 million was due to expire in 2015. The Group chose to take advantage of favourable credit conditions to put in place a more suitable facility to support its growth ambitions. The new facility is provided jointly by the Group's existing bankers, HSBC, as well as The Royal Bank of Scotland PLC. It is unsecured and has not been drawn down. This facility carries an annual interest rate of LIBOR or EURIBOR plus a margin that varies between 0.65% and 1.75% depending on the Group's net debt to EBITDA ratio.

At the end of the period, the Group had net cash of £51.1 million (2015: £34.2 million). The movement in net cash from the start of the year to net cash at the end of the year is reconciled in Table 6 below:

	£'000
<b>Table 6: Movement in Net Cash</b>	
Net cash as at 1 January 2016	34,201
Exchange rate impacts	553
Free cash flow	17,286
Dividends paid	(1,783)
Proceeds from share issues	868
<b>Net cash as at 31 December 2016</b>	<b>51,125</b>

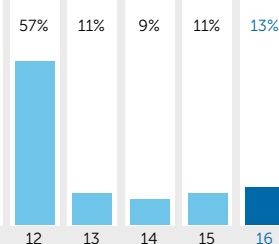
The Group's going concern position is fully described in Note 2.

## Our Key Performance Indicators

# Creating quality outcomes by measuring our performance

### Revenue growth (%)<sup>1</sup> at constant currency

13%



#### Why we measure it

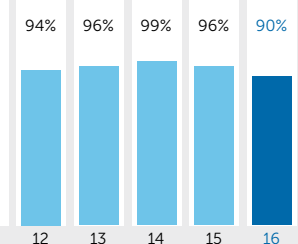
We see revenue growth as a contributing factor to our aim of providing long-term value for our shareholders.

#### Progress made in the year

Revenue has increased by 20% in 2016 to £82.6 million (2015: £68.6 million), representing growth of 20% (13% on a constant currency basis). Our strategy of having multiple products and multiple routes to market continues to pay off and we have made good progress across all Business Units in the last year.

### Customer service (OTIF)<sup>2</sup>

90%



#### Why we measure it

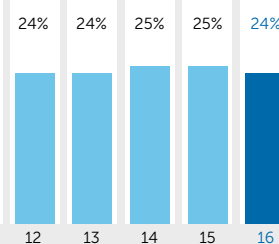
We see OTIF as a contributing factor to our aim of providing excellent service to our customers.

#### Progress made in the year

OTIF fell to 90% in 2016 (2015: 96%), which is lower than the average Group OTIF of 96% over the previous four years. OTIF was impacted by an interruption in service from our steriliser, who experienced difficulties when they commissioned a new plant resulting in extended turnaround times. These issues have now been resolved. OTIF is expected to return to levels of previous years in 2017.

### Adjusted<sup>3</sup> operating margin (%)<sup>1</sup>

24%



#### Why we measure it

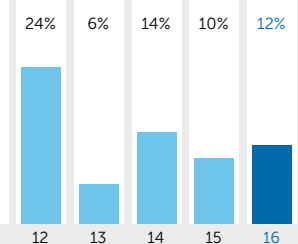
We see operating margin as important to ensure the sustainability of our business and to our aim of providing long-term value for our shareholders.

#### Progress made in the year

The launch of the two new foam dressing ranges has required new converting processes to be developed and the success of the launches has resulted in significant volumes of new product being required. The initial efficiencies of these processes have been lower than for our more established ranges and lower than we would expect to obtain on a regular basis. This has had a negative impact at the Winsford site. Improvements are being made to our processes in 2017.

### Adjusted<sup>3</sup> diluted earnings per share growth (%)<sup>1</sup>

12%



#### Why we measure it

We see EPS as an important factor to our aim of providing value for our shareholders.

#### Progress made in the year

Adjusted diluted earnings per share has increased by 12% to 7.66p (2015: 6.86p).

<sup>1</sup> Includes twelve months contribution from RESORBA® acquisition in 2012

<sup>2</sup> OTIF – 'On time in full'

<sup>3</sup> Before exceptional items and amortisation of acquired intangible assets



## Corporate Social Responsibility

# Creating quality outcomes...

We continually review our business practices to ensure that our business operates in a responsible manner with respect to Employees, Ethical Standards, Health, Safety, Environment and Community. We remain committed to continuous improvement contributing to the success of the business.

### Employees

At AMS we focus on creating an engaging place to work where employees are able to develop and are challenged to achieve both their ambitions and the long-term strategic goals of the business. With over 600 employees globally, AMS is focused on retaining and attracting the right calibre of people and providing an environment where individuals can deliver to the best of their capabilities. We recognise the importance of our people and that it is only by their effective engagement that we will continue to be highly successful. We value their commitment and determination to achieve and deliver good results. Our working environment encourages openness, teamwork, an understanding of others' needs and the ability 'to make a difference'.

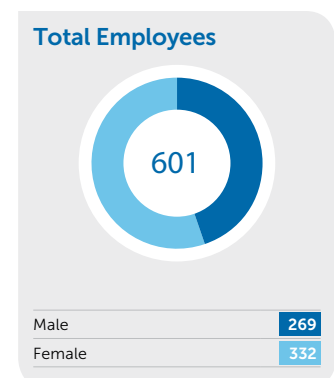
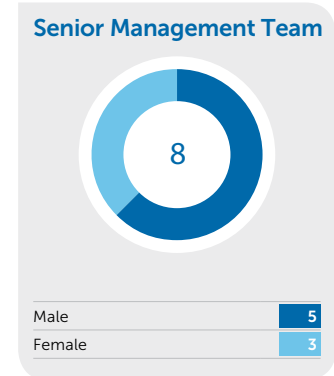
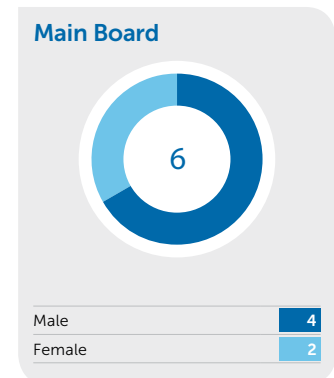
We develop the talent at AMS by training with programs such as the Management Development Programme and principles of Lean Manufacturing, and by providing a place to work where our employees feel valued, incentivised and fulfilled. We continue to support a number of apprenticeship schemes and graduate recruitments across the Group and intend to expand the number of schemes we operate in 2017.

AMS promotes communication with employees who are encouraged to put forward their views to the Company through both our monthly briefing meetings and also through our employee surveys. Employees are encouraged to participate in suggesting and implementing improvements across the Group.

### Employee Diversity

We are committed to actively encouraging a more inclusive and diverse workplace and look for opportunities to reinforce this where appropriate, although we continue to recruit on merit. The Group is committed to eliminating all forms of discrimination and giving fair and equal treatment to all employees and job applicants in terms of recruitment, pay conditions, promotions, training and all employment matters regardless of their age, disability, race, sex, sexual orientation, marriage and civil partnership, pregnancy and maternity, gender reassignment, religion or belief. The female representation on the Board, Senior Management Team and across the Group at the year-end is shown here:

### Gender Ratio



# ...by ensuring that our business is conducted in a responsible manner...

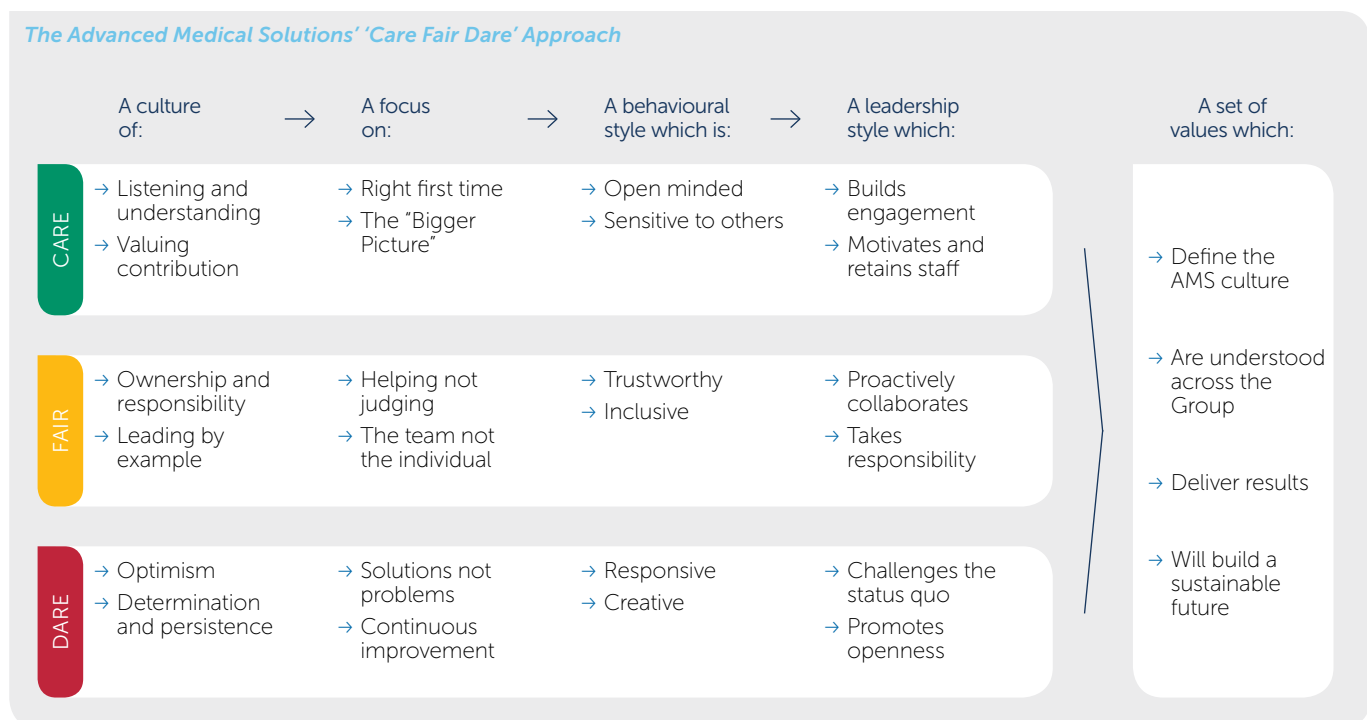
## Culture

AMS is highly dependent on the innovation and creativity of our employees for our future growth and success. It is important that we have a culture and set of values that are clearly understood across the business, and that employees embrace. We aim to operate to the highest ethical standards. We have adopted the business motto of 'The AMS Care, Fair, Dare approach' to summarise our culture, underpin our values, and to deliver results, building a sustainable future for our business. Under this motto, we have defined the principles and expectations of how we will operate together to deliver success as the Company continues to grow. Care, Fair, Dare will be reviewed and updated throughout 2017 following input gained from employees across the Group.

## Ethical Standards

We recognise the importance of operating a business in an ethical manner.

AMS has set appropriate standards and policies to uphold all laws relevant to prevention of bribery and corruption in all jurisdictions in which we operate. The Group also has in place policies and procedures covering Gifts and Hospitality, Whistleblowing, the Modern Slavery Act and the Market Abuse Regulations.



# ...and developing talent within the business

## Corporate Social Responsibility continued

### Supply Chain

Our Sourcing Policy requires suppliers to confirm they engage in ethical treatment of employees and observe prevailing laws in relation to other ethical issues, and ensures that suppliers:

- Do not employ any forced, bonded or involuntary labour;
- Do not use child labour;
- Provide safe and hygienic working conditions;
- Take adequate steps to prevent accidents and injury to health arising out of, associated with, or occurring in the course of employment;
- Pay wages and benefits and apply working hours for a standard working week that are no less than the applicable minimum national legal standard;
- Do not discriminate on grounds of gender, age, religion, political affiliation or sexual orientation;
- Do not permit harsh or inhumane treatment of its employees;
- Do not supply equipment used in the unethical treatment of individuals;
- Do not supply or trade in any banned or proscribed substances or materials in breach of the prevailing laws;
- Do not engage in practices that amount to bribery; and
- Respect and seek to avoid any unlawful infringement of the intellectual property rights of third parties

### Health, Safety and Environment

The Health and Safety of our staff, visitors to our facilities, and those who carry out work on our behalf, is of the utmost importance to us. Identifying and complying with applicable legislation underpins our Health and Safety activities and improvement initiatives. The Board provides Health, Safety and Environmental (HSE) leadership and the Chief Executive Officer has primary responsibility for setting the principles. The Chief Financial Officer, supported by the Group Operations Director, ensures adequate resource is available to support operational health, safety and environmental improvement plans.

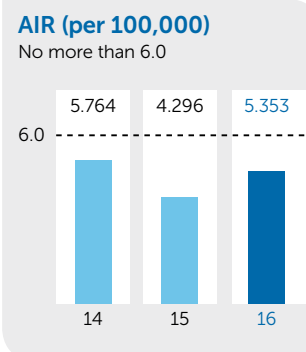
We have established HSE Committees at each site which meet monthly. These Committees report monthly to the Senior Management Team and to the Board. We focus on the prevention of accidents and incidents through proactive reporting of potential hazards.

Over the last 12 months we have focused our resources to improve the level of accountability and expectation for continuous improvement in Health and Safety. Initiatives to improve involvement and accountability will continue over the foreseeable future to help us to further reduce our accident potential.

### Safety Performance 2016

Our All Injury Rate (AIR) was 5.353 in 2016 and has been below the target of 6.0 over the past 3 years. We endeavour to take proactive initiatives to ensure our AIR remains below our target. Our AIR is measured as follows:

$$\text{AIR} = \frac{\text{Total number of injuries} \times 100,000}{\text{Total labour hours worked}}$$



## Environment

It is the Group's policy to abide by all laws, directives and regulations relevant to its field of operations and to act in a manner so as to minimise the effects of our operations on the environment.

As AMS has operations across a number of countries, local management drives environmental performance. Specific site-level objectives are established to ensure compliance with local legislative and external management system requirements. AMS uses a variety of indicators to monitor environmental performance.

## Community

We are committed to supporting and having a positive interaction with our local communities.

The Whitechapel Centre is the leading homeless and housing charity for the Liverpool region. They work with people who are sleeping rough, living in hostels or struggling to manage their accommodation. They are committed to helping people find and maintain a home and learn the life skills essential for independent living. AMS has supported the Whitechapel Centre for the last two years and at Christmas employees provided over two hundred shoe boxes wrapped as presents containing essential items such as toiletries and warm clothing, and Christmas gifts. These contributions are matched financially by the Company.

AMS sponsors a number of sports charities and clubs in the area. We have sponsored the annual Pie & Peas 5 mile race for three years, which is organised by the local athletics club based in Winsford, Cheshire, Vale Royal A.C. As well as sponsoring this local race, employees are encouraged to participate in pre-race training programs to foster employee well being as well as enjoying good-humoured rivalry. AMS aims to promote participation in sports and exercise so as to encourage healthy lifestyles.

We also sponsor our local ladies football club, Witton Albion Ladies FC, who receive no other funding and are coached by one of our employees in their spare time, as well as a local junior rugby team (Crewe and Nantwich RUFC Junior Colts).

We are involved with some international charities. We sponsor a number of children in Africa and Asia through Plan International, a charity that promotes child rights and aims to end child poverty.

We intend to continue to provide ongoing support to these and other events.



Left: **Witton Albion Ladies FC Team Photo**

We were delighted that Advanced Medical Solutions chose to support us. We had a fantastic season, thoroughly enjoyed our football, and really appreciate the support and commitment we received.

**Anthony Lee**  
Manager, Witton Albion Ladies.

## Risk Management

# Creating quality outcomes by managing risk

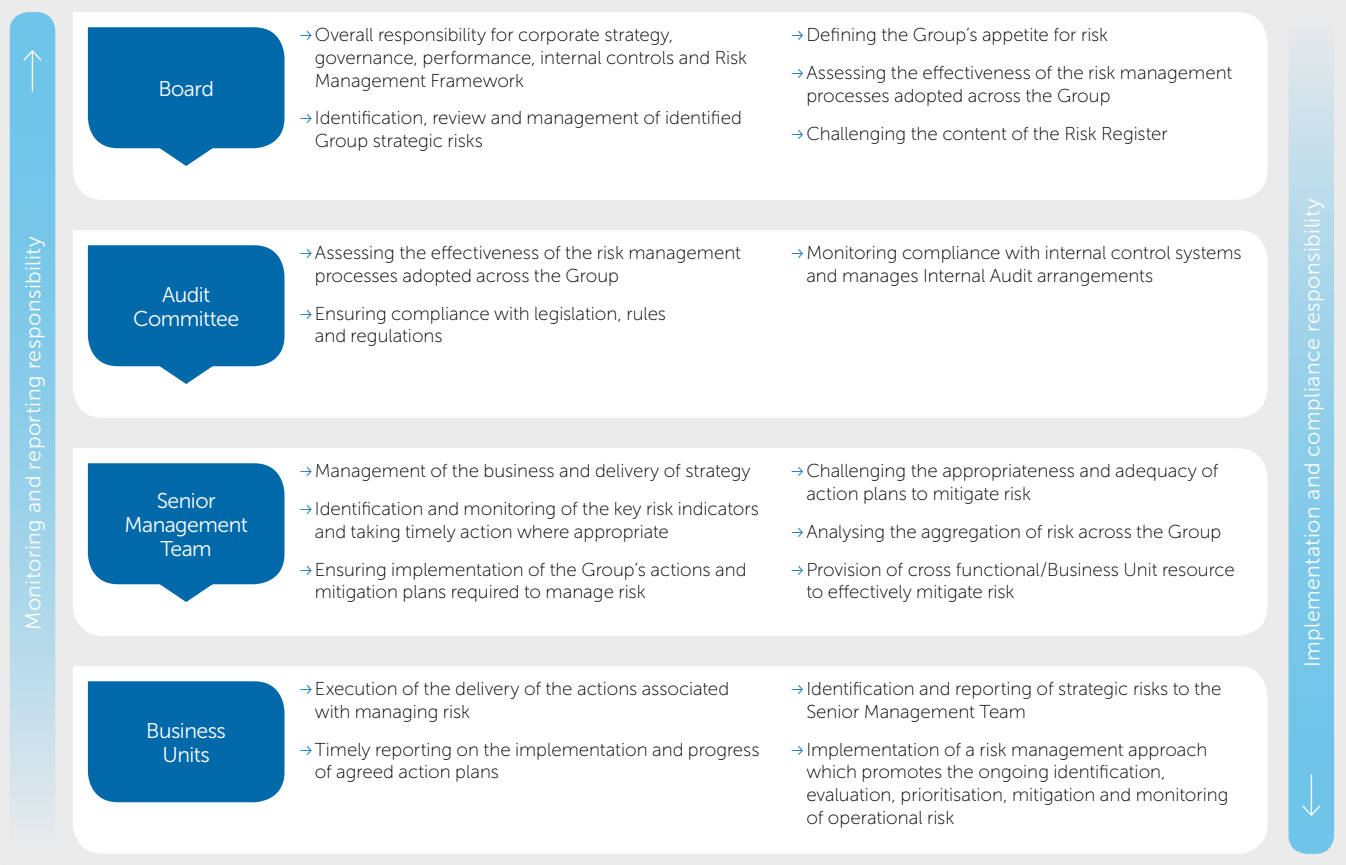
Risk and uncertainty are an inherent part of doing business and could have an impact on our business, brands, assets, revenue, profits, liquidity and capital resources. To meet our strategic objectives, build shareholder value and promote our stakeholders' interests, we must manage this risk.

An effective and successful risk management process balances risk and reward and is dependent on the judgement of the likelihood and impact of the risk involved. The Board has overall responsibility for ensuring there is an effective risk management framework, which underpins our business model.

The Business Units, Senior Management Team (SMT), Audit Committee and Board review risks throughout the year. These risks are documented in the Risk Register which is formally reviewed by the SMT, Internal Audit and the Board twice annually. The plans and actions assigned to the Executive Directors and SMT members are reviewed to ensure progress in being made with risk and mitigation plans.

We believe that the policies, procedures and monitoring systems that are in place are sufficient to effectively manage the risks faced by our business.

### Key Roles and Responsibilities





## Identifying Risks

A robust methodology is used to identify key risks across the Group; in Business Units, operations and during projects. This is an ongoing process.

## Analysing Risks

Once identified, the process will evaluate identified risks to establish root causes, financial and non-financial impacts and likelihood of occurrence. We use a scoring system to assess the likelihood of a risk materialising and the potential financial impact on the Group. The risks are prioritised in terms of severity based on the scoring and a mitigation plan is prepared to reduce the risk. Once controls and mitigating factors are considered, the risk is reassessed and re-scored (mitigated score) to ascertain the net exposure.

## Managing Risk

The SMT, Internal Audit and the Board review the Risk Register formally at least twice a year, assessing whether the risks are still the most

significant facing the Group and whether new risks have arisen. Effectiveness, adequacy of controls and mitigating actions are assessed and if additional controls or actions are required, these are identified and actions assigned. The Risk Register documents this.

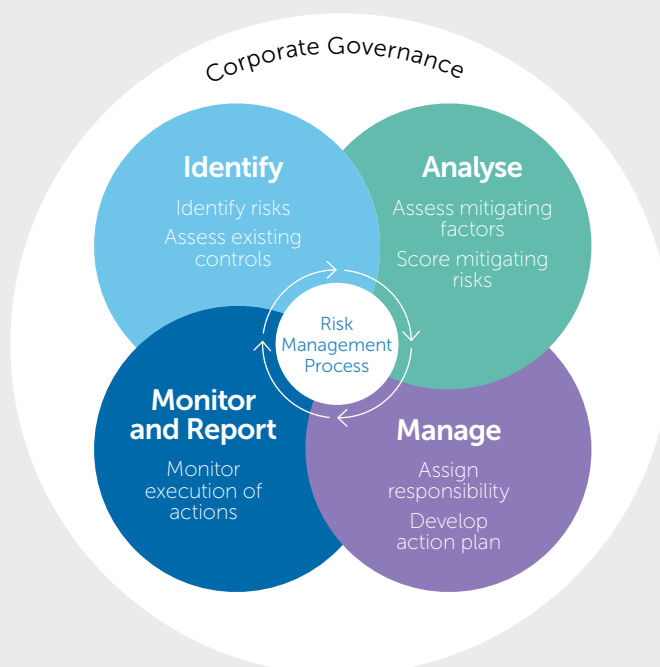
## Monitoring and Reporting Risk

The SMT is responsible for monitoring progress to mitigate key risks. The risk management process is continuous; key risks are reported to the Board following the bi-annual review of the Group's Risk Register.

## Internal Audit

Additionally, the Board is supported by a program of Internal Audits. Internal Audit reports to the Audit Committee on progress of control or process improvements following Internal Audit recommendations.

*Risk Management Model*



## Risk Management continued

# Principal Risks: Impact, key controls and mitigating factors

Risk	Key Controls and Mitigating Factors
<p><b>Market share growth declines/ developing new markets is slower than expected</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Income shortfall</li> <li>→ Loss of OEM partners</li> </ul>	<ul style="list-style-type: none"> <li>→ Effective alignment of strategy to consider the market changes and promote quality and cost savings</li> <li>→ New territories for revenue growth developed</li> <li>→ Continued development of new products and projects to deliver growth to provide differentiation</li> <li>→ Marketing strategy to support partners and products</li> </ul>
<p><b>Lack of innovation/slow adoption of new products</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Loss of market share</li> <li>→ Return on R&amp;D investment is poor</li> <li>→ Misidentification of new, competitive technology</li> <li>→ Loss of business</li> </ul>	<ul style="list-style-type: none"> <li>→ Pipeline of new products / technologies identified and prioritised</li> <li>→ R&amp;D progress is monitored against the stage gate process to ensure projects are progressing to plan and action is taken if necessary</li> <li>→ Strong links with partners, including Universities, to reduce the risk of missed opportunities</li> <li>→ Investment in clinical programmes, Key Opinion Leaders, clinical training and symposia to foster the adoption of new approaches</li> <li>→ Consideration of licensing technology</li> </ul>
<p><b>Industry consolidation/loss of business at key account level</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Income shortfall</li> </ul>	<ul style="list-style-type: none"> <li>→ No over reliance on any one customer. No one customer is more than 10% of the Group's revenue</li> <li>→ All customers have contracts with agreed termination clauses</li> <li>→ Evaluation of opportunities to broaden reach into new markets</li> <li>→ Unique products protected by Intellectual Property (IP)</li> </ul>
<p><b>Increased global competition reduces profitability</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Income shortfall</li> </ul>	<ul style="list-style-type: none"> <li>→ Full service offering including strong regulatory and quality assurance together with product development, product differentiation and clinical support to mitigate a pure cost of supply proposition</li> <li>→ Contacts have agreed set minimas which allow terms to be renegotiated or agreements terminated</li> <li>→ Diversified approach reduces the impact on any one project, partner or product</li> </ul>
<p><b>Regulatory risk</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Inability to supply product</li> <li>→ Product launches delayed</li> <li>→ Loss of customer, revenue and reputation</li> </ul>	<ul style="list-style-type: none"> <li>→ Stringent regulatory regime in place</li> <li>→ Experienced regulatory team</li> <li>→ Strong regulatory pathway ensures that the increased regulatory requirements are met to gain approvals</li> <li>→ Work with partners and distributors where they have local expertise</li> <li>→ Strictly controlled Quality Management System</li> </ul>
<p><b>Making the wrong acquisition</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Impaction Group performance, revenue and market capitalisation</li> <li>→ Reputational loss</li> </ul>	<ul style="list-style-type: none"> <li>→ Strategy set and M&amp;A objectives defined</li> <li>→ Advisors appointed</li> <li>→ Detailed market intelligence and identification of targets</li> <li>→ Extensive due diligence process established</li> </ul>

Risk	Key Controls and Mitigating Factors
<p><b>Brexit implications</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Higher costs</li> <li>→ More complicated/longer product approvals</li> <li>→ Longer lead times for customers</li> </ul>	<ul style="list-style-type: none"> <li>→ Brexit team established with plans outlined</li> <li>→ Monitor Brexit discussions and agree course of action once decisions are made</li> <li>→ Set up as an Authorised Economic Operator to allow quicker customs clearance</li> <li>→ Evaluate benefits of establishing a distribution hub in Mainland Europe</li> <li>→ Utilise existing European subsidiaries to best advantage</li> </ul>
<p><b>Forex exposure</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Loss of income</li> <li>→ Shortfall in profit</li> <li>→ Market expectations missed</li> </ul>	<ul style="list-style-type: none"> <li>→ Treasury policy on forex exposure determined</li> <li>→ At least 70% of estimated transactional exposure for next 12 months hedged</li> </ul>
<p><b>Vulnerability to single source supply</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Inability to supply specific products and exposed to price increases</li> <li>→ Increased cost of supply</li> </ul>	<ul style="list-style-type: none"> <li>→ Dual source key components wherever possible</li> <li>→ Hold levels of inventory to prevent operational issues arising from delays</li> <li>→ Business Interruption Insurance to cover significant interruption of supply</li> </ul>
<p><b>Insufficient focus on protection of IP</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Commercial value of products not maximised</li> <li>→ Loss of revenue</li> <li>→ Potential patent infringement</li> </ul>	<ul style="list-style-type: none"> <li>→ R&amp;D prioritising assessment of ability to patent</li> <li>→ Patented technologies reviewed for inclusion into new developments</li> <li>→ IP portfolio reviewed regularly</li> <li>→ Legal team working closely with R&amp;D and patent attorneys</li> <li>→ Strong enforcement if IP infringed</li> </ul>
<p><b>Cyber-Risk (Systems and Data compromised)</b></p> <p><i>Impact</i></p> <ul style="list-style-type: none"> <li>→ Loss of sensitive data</li> <li>→ Loss of reputation</li> </ul>	<ul style="list-style-type: none"> <li>→ Cyber Security audits carried out</li> <li>→ Penetration testing</li> <li>→ Ongoing user education</li> <li>→ Implementation of audit and testing recommendations</li> </ul>

Mary Tavener

Company Secretary

28 April 2017

## Board of Directors



**Peter V Allen**



**Non-Executive  
Chairman**

Mr Allen was appointed as Non-Executive Chairman of the Group in January 2014. He is currently the Non-Executive Chairman of LSE listed Future plc, AIM listed Clinigen plc, and Diurnal plc, together with privately owned Oxford Nanopore Technologies Limited. He is a qualified Chartered Accountant.

Mr Allen has extensive experience in the healthcare industry, having held key senior positions in a number of companies and playing a significant role in their development. This includes 12 years at Celltech Group plc (1992-2004) as CFO and Deputy CEO, 6 years as Chairman (2007-13) and interim CEO (2010-11) of ProStrakan Group plc, and three years as Chairman of Proximagen Neurosciences plc (2009-12).



**Chris Meredith**



**Chief Executive  
Officer**

Mr Meredith was appointed Group Chief Executive Officer in January 2011. He joined AMS as Group Commercial Director in July 2005 following a successful 18-year career in international healthcare sales, marketing and business development. His experience prior to joining AMS covered business-to business contract manufacturing, product development and clinical research as well as branded product sales all within the medical device, pharmaceutical or consumer healthcare markets. He was appointed Managing Director of Advanced Woundcare in February 2008 and in January 2010 he became Chief Operating Officer for the Group. Mr Meredith has previously held senior positions at Smiths Industries, Cardinal Health, Banner Pharmacaps, and Aster Cephac.



**Mary G Tavener**



**Chief Financial  
Officer**

Ms Tavener joined AMS as Finance Director in 1999. Prior to this she was the Group Financial Controller at BTP plc during a period of considerable corporate activity and was involved in the acquisition and disposal of several businesses that repositioned BTP plc as a fine chemical company prior to it being sold to Clariant AG. Her experience has been gained in several manufacturing companies and she has held financial positions with Cadburys Ltd and Parker Hannifin, a US Engineering Corporation. Prior to BTP plc she was the Finance Director of Churchill Tableware Ltd. She is a qualified Chartered Management Accountant and member of the Association of Corporate Treasurers.



## Penny Freer



### Senior Independent Non-Executive Director

Ms Freer was appointed as Senior Independent Non-Executive Director of AMS in March 2010. She is a partner of London Bridge Capital Partners, a corporate advisory business, and a Non-Executive Director of Empresaria Group plc, Crown Place VCT plc and Sinophi Healthcare.

With 25 years' experience in investment banking she was formerly Head of Equities for Robert W Baird in London and prior to this held senior positions at Credit Lyonnais and NatWest Markets.



## Stephen G Bellamy



### Non-Executive Director

Mr Bellamy was appointed as Non- Executive Director of AMS in February 2007. He is currently Chairman of Becrypt Ltd (data security and protection technology) and a founding partner of Accretion Capital LLP (provider of strategic capital and advice to European emerging technology companies).

Formerly an Executive Director of Sherwood International plc and Brierley Investments' London operations, he has also held a number of other Non-Executive Directorships and advisory roles. He is a New Zealand qualified Chartered Accountant.



## Peter M Steinmann



### Non-Executive Director

Mr Steinmann was appointed as Non-Executive Director of AMS in July 2013. He is a Swiss national with over 25 years of commercial experience in Medical Devices and Diagnostics. He has held senior roles within Johnson & Johnson, Medtronic International and Boehringer Mannheim. Most recently, he was Regional Vice President Global Surgery and Shared Services, Medical Devices and Diagnostics, Austria, Germany and Switzerland at Johnson & Johnson AG, Switzerland as well as Chairman of the Board.

Having worked throughout Europe and North America, he has extensive knowledge of the global medical devices market. He is currently Chairman of Advanced Perfusion Diagnostics SA, a Non-Executive Director of DistaMotion SA and is a Board Observer with Orthimo AG, and has held a number of other Non-Executive Directorships prior to joining AMS.

#### Key

- Denotes Chairman
- Company Secretary
- Audit Committee
- Remuneration Committee
- Nomination Committee

#### Registered Office

Premier Park, 33 Road One,  
Winsford Industrial Estate,  
Winsford,  
Cheshire CW7 3RT

#### Registered Number

2867684



## Senior Management



**Simon Coates**  
**Group IS Manager**

Simon joined AMS in 2002 as Group Information Systems Manager and, during the Company's growth since then, he has overseen many key IT projects including implementing ERP systems across the Group, integrating acquisitions and relocating the business into its existing Winsford site.

Simon has over 25 years' experience in IT infrastructure, systems implementation and software development gained from a number of different industries. Prior to joining AMS he was Worldwide IT manager at Whitford Plastics Ltd, a manufacturer of fluoropolymer coatings, supporting them through a period of rapid growth, managing multiple sites and key IT projects including ERP implementation and adoption of the Euro for the European offices.

Simon was appointed to the Senior Management Team in January 2015.



**Rose Guang**  
**Group Quality Assurance/  
Regulatory Affairs (QA/RA) Director**

Rose joined AMS in May 2013 as Group QA/RA Director. Having completed her Masters Degree in Precision Engineering from Nanyang Technology University in Singapore, Rose has over 20 years' experience working for medical device companies and has a strong background in setting up effective quality systems. Rose has worked for Bausch & Lomb International Healthcare, Nypro and spent nine years at Medical House Products plc as Director of Quality, Regulatory Affairs and Operations. Prior to joining AMS, Rose was Head of Quality and Regulatory Affairs at Bepak, part of Consort Medical plc.

Rose is also a 6 Sigma Master Black Belt.



**Eddie Johnson**  
**Group Financial Controller**

Eddie joined AMS in October 2011. Having gained a first class degree in Maths and Computer Science from Keele University in 1993, he qualified as a Chartered Accountant in 1996. Since moving into industry in 1996 Eddie has held a number of senior finance roles in various sectors including, more recently, Head of Commercial Finance at Norcros plc and Western European Financial Controller for Sumitomo Electrical Wiring Systems.

In November 2012, Eddie was appointed Group Financial Controller



## Pieter van Hoof

### Group Operations Director

Pieter joined AMS B.V. in November 2009. Having completed a Masters degree in Engineering in Chemistry and Biochemistry at the Katholieke Universiteit Leuven (Belgium). Pieter joined Janssen Pharmaceutica working as a production supervisor in the manufacturing unit for sterile injectable products before joining the DuPont Engineering Polymers business in September 1999. At DuPont Engineering Polymers Pieter worked in a number of business process improvement roles in Supply Chain, certifying as a 6 Sigma Master Black Belt, before moving into Sales and Marketing, gathering experience in account management and business development. Before joining Advanced Medical Solutions B.V. Pieter held the position of European Customer Services Manager for DuPont Engineering Polymers.

Pieter was appointed Director of our Bulk Materials Business Unit in November 2012 and became the Operations Manager for our Winsford and Etten-Leur sites in February 2015. He was promoted to Group Operations Director in December 2016, following Richard Stenton's retirement.



## Jeff Willis

### Business Unit Director, Branded Direct and Branded Distributed

Jeff joined AMS in October 2005 as Vice President Business Development, Americas. Jeff graduated with a degree in Biomedical Engineering from the University of Florida in 1996 and completed a Masters programme in Management of Technology at Georgia Institute of Technology in 2001. He spent ten years with Kimberly-Clark Health Care in various R&D, Product Development, and New Business Development roles. In 2004, Jeff joined Abbott Laboratories in Columbus, Ohio as Manager of Licensing and Business Development supporting the medical nutritional and consumer products division.

In October 2009, Jeff assumed the role of Vice President of Group Marketing for AMS, relocating to the UK. In December 2011, Jeff also took responsibility for the Integration of RESORBA®.

Jeff was appointed Director of our Branded Distributed Business Unit in November 2012, and following a recent re-organisation is now also Director of the Branded Direct Business Unit. He resides in the US.



## Becky Walmsley

### Business Unit Director, OEM and Bulk Materials

Becky joined AMS in July 2015 as Business Unit Director of OEM and Bulk Materials. Becky graduated with a degree in Modern Languages (French and German) with International Studies from South Bank University in 1993 and completed an Executive Masters of Business Administration at Lancaster University in 2000.

Becky has more than 13 years' experience in the Medical Device sector, having held various senior management roles, most recently as European Sales Director for Scapa Healthcare.

## Corporate Governance Report

### Governance Statement

The Company's shares are quoted on the AIM market and are subject to the AIM Admission Rules of the London Stock Exchange and consequently are not required to comply with the provisions or report in accordance with the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council in 2014. The Code was updated in April 2016 for accounting periods beginning on or after 17 June 2016 and will be applied for the following financial year. The Board is however committed to the principles of good corporate governance covering leadership, effectiveness, accountability, remuneration and shareholder relations as outlined in the Code. The Directors have applied the Code as far as is practicable and appropriate for a public company of the Group's size.

### Role of the Board

The role of the Board is to establish the vision and strategy for the Group, to deliver shareholder value and it is responsible for the long-term success of the Company. Individual members of the Board have equal responsibility for the overall stewardship, management and performance of the Group and for the approval of its long-term objectives and strategic plans.

### Division of Responsibilities

There is a clear division of responsibilities between the role of the Chairman and Chief Executive Officer of the Company. The roles are clearly set out in writing and reviewed by the Board.

### Board Responsibilities

Role	Name	Responsibility
<b>Chairman</b>	<b>Peter Allen</b> Appointed Chairman on 1 January 2014 (following his appointment as a Non-Executive Director on 4 December 2013)	<ul style="list-style-type: none"> <li>→ Leadership and management of the Board</li> <li>→ Setting the Board's Agenda, style and tone of discussions</li> <li>→ Ensuring the Board's effectiveness in all aspects of its role</li> <li>→ Work closely with the Chief Executive Officer on developing the Group's strategy, and providing general advice and support</li> <li>→ Facilitating active engagement by all members</li> <li>→ Participating in shareholder communications</li> <li>→ Promoting high standards of corporate governance</li> </ul>
<b>Chief Executive Officer</b>	<b>Chris Meredith</b>	<ul style="list-style-type: none"> <li>→ Managing the Group's business</li> <li>→ Developing Group strategy for consideration and approval by the Board</li> <li>→ Leading the Senior Management Team (SMT) in delivering the Group's strategic and day-to-day operational objectives</li> <li>→ Leading and maintaining communications with all stakeholders</li> </ul>
<b>Senior Independent Director</b>	<b>Penny Freer</b> Appointed Senior Independent Director in 2010	<ul style="list-style-type: none"> <li>→ Acting as an intermediary for other Directors when necessary</li> <li>→ Available to meet with shareholders and aid communication of shareholder concerns when normal channels of communication are inappropriate</li> <li>→ Chair meetings of Non-Executive Directors if, and when, required</li> <li>→ All responsibilities of a Non-Executive Director as outlined below</li> </ul>
<b>Non-Executive Directors</b>	<b>Steve Bellamy</b> <b>Peter Steinmann</b>	<ul style="list-style-type: none"> <li>→ Constructively challenging and contributing to the development of Group strategy</li> <li>→ Monitoring the integrity of financial information, financial controls and systems of risk management to ensure they are robust</li> <li>→ Reviewing the performance of Executive Management</li> <li>→ Formulating Executive Director remuneration</li> </ul>

### The Non Executive Directors

Each of the Non-Executive Directors are free from any relationship with the Executive Management of the Company and are free from any business or other relationship that could affect or appear to affect the exercise of their independent judgement. The Board considers that all of the Company's Non-Executive Directors are Independent Directors, in both character and judgement, in accordance with the recommendations of the Code. This is explained in more detail on page 48. The Chairman, Peter Allen, was considered independent on his appointment.

## The Operation of the Board

The Board has the authority for ensuring that the Group is appropriately managed and achieves the strategic objectives it sets. To achieve this, the Board reserves certain matters for its own determination including matters relating to Group strategy, approval of interim and annual financial results, dividends, major capital expenditure, budgets, monitoring performance, treasury policy, risk management, corporate governance and the effectiveness of its internal control systems. It has a schedule of matters specifically reserved for its approval. Matters are delegated to the Board Committees, Executive Directors and the Senior Management Team where appropriate. The Board performs its responsibilities through an annual programme of meetings and by continuous monitoring of the performance of the Group.

Matters considered by the Board in 2016 included:

- Finance and operations review
- Annual budget
- Risk review
- Strategic plans
- Health and Safety
- Potential merger and acquisition targets
- Reports from the Board Committees
- Board evaluation
- Acquisition strategy
- Impact of Brexit
- Market Abuse Regulations (MAR)
- Consultant appointments across Group
- Major capital expenditure

The Board also delegates a number of its responsibilities to Committees and Management as described below.

## Board Committees

The Board has delegated specific authority to the Audit Committee, Remuneration Committee and the Nomination Committee. Peter Allen, Steve Bellamy, Penny Freer and Peter Steinmann are members of the Audit, Remuneration and Nomination Committees. Chris Meredith is a member of the Nomination Committee.

The Terms of Reference of all three Board Committees are available on the corporate website 'www.admedsol.com'.

## Board and Committee Meetings

The Board meets on a formal basis regularly, and met formally eight times in 2016. Members are supplied with financial and operational information in good time for review in advance of the meetings. Most Board Committee meetings are scheduled around Board meetings.

The Directors attended the following meetings in the year ended 31 December 2016:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Peter Allen	8	3	4	1
Steve Bellamy	8	3	4	1
Penny Freer	8	3	4	1
Chris Meredith	8	2*	4*	1
Peter Steinmann	8	3	4	1
Mary Tavener	8	3*	4*	1*

\* By invitation

All Directors have access to the advice and services of the Company Secretary. The Board approves the appointment and removal of the Company Secretary. The Non-Executive Directors are able to contact the Executive Directors, Company Secretary, Deputy Company Secretary or Senior Managers at any time for further information.



## Corporate Governance Report continued

### Effectiveness

#### Board Composition

The Board comprises the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. The Directors' profiles appear on pages 42 and 43 and detail their experience and suitability for leading and managing the Group. Together they bring a valuable range of expertise and experience to the Group. No individual or group of individuals dominates the Board's decision making process. The Chairman fosters a climate of debate and challenge in the boardroom, built on his challenging but supportive relationship with the Chief Executive Officer which sets the tone for Board interaction and discussions.

#### Appointment of Non-Executive Directors

Non-Executive Directors are appointed to the Board following a formal, rigorous and transparent process, involving external recruitment agencies, to select individuals who have a depth and breadth of relevant experience, thus ensuring that the selected candidates will be capable of making an effective and relevant contribution to the Board. The process for the appointment of Non- Executive Directors is managed by the Nomination Committee, whose responsibilities are outlined on page 49.

#### Diversity

We recognise the importance of diversity at Board level and our Board members comprise a number of different nationalities with a wide range of skills and experiences from a variety of business backgrounds. Our current female representation on the Board is 33.3%, already above the minimum representation level which was to be achieved by 2015. Additionally, the Senior Management Team also has a diverse experience. Its members comprise of several nationalities and female representation is 37.5%.

#### Terms of Appointment and Time Commitment

All Non-Executive Directors are appointed for an initial term of three years subject to satisfactory performance. After this time they may serve additional three year terms following review by the Board. All Non-Executive Directors are expected to devote such time as is necessary for the proper performance of their duties. Directors are expected to attend all Board meetings and Committee meetings of which they are members and any additional meetings as required.

Further details of their terms and conditions are summarised in the Remuneration Report on page 62 and the terms and conditions of appointment of the Non-Executive Directors are available at the Company's Registered Office.

#### Tenure Chart

The size of the Board during 2016 was six and the tenure was as follows.

The Company follows the Code as far as is practicable. The Board notes the tenure requirement for a Non-Executive Director who has served on the Board for more than nine years from the date of first election to not be considered to be independent (Code Provision B.1.1.). Steve Bellamy has served as a Non-Executive Director for 10 years (February 2017). Due to his extensive experience with the Company, and that the Board consider him to be independent of character and judgement, he is considered to be an independent Director. As such Steve Bellamy will be subject to annual re-election starting in 2017 (Code Provision B.7.1.).

The Board further notes that under Code Provision B.1.2 a smaller company (below FTSE 350) must have at least 2 independent Non-Executive Directors. The Board consider Peter Allen, Steve Bellamy, Penny Freer and Peter Steinmann to be independent.

Peter Allen, Steve Bellamy and Penny Freer own shares in the Company. These holdings have been highlighted to shareholders and are small. They are not considered to impact Non-Executive Director independence under Code Provision B.1.1.

Code Provision B.2.3. states that any term beyond six years for a Non-Executive Director should be subject to rigorous review, taking into account the need for progressive refreshing of the Board. The Board reviewed the appointments of Steve Bellamy and Penny Freer, and consider that their continued appointment does not present any issues.

#### Board Composition



Non-Executive Chairman	1
Executive Directors	2
Non-Executives Directors	3

#### Gender Diversity of Board



Male	4
Female	2

#### Board Tenure



0-3 years	nil
4-7 years	3
8+ years	3

**Induction and Professional Development**

New Directors are given a formal induction process including details of how the Board and Committees operate, meetings with Senior Management and information on Group strategy, products and performance. Training and development needs of Directors are reviewed regularly. The Directors are kept apprised of developments in legal, regulatory and financial matters affecting the Group by the Deputy Company Secretary and the Group's External Auditors and advisors.

**Professional Advice, Indemnities and Insurance**

There is provision for Directors to take independent professional advice relating to the discharge of their responsibilities should they feel they need it. The Company has arranged Directors' and Officers' liability insurance against certain liabilities and defence costs. However, the Directors' insurance does not provide protection in the event of a Director being found to have acted fraudulently or dishonestly.

**Board and Committee Evaluation**

The performance evaluation of the Board, its Committees and Directors is undertaken by the Chairman annually and implemented in collaboration with the Committee Chairmen. The 2016 Board and Committee evaluations were conducted by way of each Director and Committee member completing comprehensive questionnaires. The results were collated, discussed and acted upon by the Board and Committees. The Board reviews the outcomes of the Committee evaluations and assesses their performance. The Chairman confirms that the performance of the Non-Executive Directors continues to be effective.

**Election and Re-Election of Directors**

The Company's Articles of Association require all Directors to retire and submit themselves for re-election at the first AGM after appointment and thereafter at least every three years. The Notice of AGM will give details of those Directors seeking re-election.

**Remuneration Committee**

The Remuneration Committee comprises Penny Freer (Chairman), Peter Allen, Steve Bellamy and Peter Steinmann. The Committee has Terms of Reference that are reviewed at least annually, were updated at the end of 2016 and are available to view on the Company Website 'www.admedsol.com'. The Deputy Company Secretary acts as Secretary to the Committee.

The Remuneration Committee met four times in 2016. The Committee, in consultation with the Chief Executive Officer, determines the Group's policy on Executive remuneration, employment conditions and the individual remuneration packages of the Executive Directors of all Group companies and all Management earning in excess of £100,000 per annum. It also approves all new incentive schemes, the grants of options under the Group's share option schemes and the grant of shares under the Group's Long-Term Incentive Plan (LTIP). The report of the Committee is included on pages 55 to 64.

**Nomination Committee**

The Nomination Committee comprises Peter Allen (Chairman), Penny Freer, Steve Bellamy, Chris Meredith and Peter Steinmann and meets as and when it is necessary to do so. The Committee has Terms of Reference that are reviewed at least annually, were updated at the end of 2016 and are available to view on the Company Website 'www.admedsol.com'. The Deputy Company Secretary acts as Secretary to the Committee. The Committee met once during the year.

The Committee's role is to:

- Ensure that appropriate procedures are in place for the nomination and selection of candidates for appointment to the Board considering the balance of skills, knowledge and experience of the Board;
- Make recommendations to the Board regarding re-election of Directors, succession planning and Board composition, having due regard for diversity, including gender; and
- Consider succession planning for Senior Management and membership of the Audit and Remuneration Committees.

**Audit Committee**

The Audit Committee comprises Steve Bellamy (Chairman), Peter Allen, Penny Freer, and Peter Steinmann. Steve Bellamy, a qualified Chartered Accountant, chairs the Committee. The Committee has Terms of Reference that are reviewed at least annually, were updated at the end of 2016 and are available to view on the Company Website 'www.admedsol.com'. The Deputy Company Secretary acts as Secretary to the Committee.

The Committee met three times during the year. The Chief Executive Officer, Chief Financial Officer, Group Financial Controller, External Audit Partner and Internal Auditor attended a number of these meetings. The Audit Committee also met with the External Audit partner without the Executives and Senior Managers present. The Audit Committee Report is included on pages 51 to 54.

## Corporate Governance Report continued

### **Going Concern**

In carrying out their duties in respect of going concern, the Directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months from signing of the accounts. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

With regard to the Group's financial position, it had cash and cash equivalents at the year end of £51.1 million (2015: £34.2 million) and was debt free (2015: debt free). The Group agreed a five-year, £30 million, multi-currency, revolving credit facility in December 2014 with an accordion option under which AMS can request up to an additional £20 million on the same terms. The new facility is provided jointly by the Group's existing bank HSBC, as well as The Royal Bank of Scotland PLC and replaced the previous £4 million facility. It is unsecured on the assets of the Group and is currently undrawn.

While the current economic environment is uncertain, AMS operates in a market whose demographics are favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, market growth is predicted. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

Having taken the above into consideration, the Directors have reached the conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

### **Remuneration**

The level of remuneration of the Directors is set out in the Remuneration Report on pages 55 to 64.

### **Relations with Shareholders**

The Board appreciates that effective communication with the Company's shareholders and the investment community as a whole is a key objective. The Chairman's Statement, Chief Executive's Statement and the Strategic Report and Financial Review, together with the information in the Annual Report of the Group, provides a detailed review of the business. The views of both institutional and private shareholders are important, and these can be varied and wide-ranging, as is their interest in the Company's strategy, reputation and performance. The Executive Directors have overall responsibility for ensuring effective communication and the Company maintains a regular dialogue with its shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. The views of shareholders are sought through direct contact and via feedback from advisors and are communicated to the Board as a whole. The Board encourages the participation of shareholders at its Annual General Meeting, notice of which is sent to shareholders at least 20 working days before the meeting. The AMS website 'www.admedsol.com' is regularly updated and provides additional information on the Group including information on the Group's products and technology.

### **Annual General Meeting**

This year's AGM will, as last year, include a presentation by the Chief Executive Officer on the current progress of the business and allow the opportunity for questions on this or any of the resolutions. The Company proposes separate resolutions for each issue and specifically relating to the report and accounts. The Company ensures all proxy votes are counted and indicates the level of proxies on each resolution along with the abstentions after it has been dealt with on a show of hands.

After the meeting, shareholders have the opportunity to talk informally to the Board and raise any further questions or issues they may have. The outcome of the AGM, a copy of the AGM presentation and details of the poll results will be posted on the Company's website after the meeting.

**Mary Tavener**

Company Secretary

28 April 2017

# Audit Committee Report

## Aims and Objectives

The overall aim of the Committee is to monitor the integrity of the Group's financial statements and announcements, its accounting processes, and the effectiveness of its internal controls and risk management system. The Committee assists the Board in fulfilling its responsibility to ensure that the Group's financial systems provide accurate and up-to-date information on its financial position, and supports the Board in its consideration as to whether the Group's published Financial Statements are fair, balanced and understandable.

The Audit Committee is required to:

- Oversee and advise the Board on the current risk exposures of the Company and related future risk strategies
- Oversee the activities of Internal Audit
- Review internal control policies and procedures for the identification, assessment and reporting of material financial and non-financial risks
- Review the Group's procedures for detecting fraud
- Review the Group's procedures for the prevention of bribery and corruption
- Review the Group's procedures for ensuring that appropriate arrangements are in place to enable employees to raise matters of possible impropriety in confidence
- Review the effectiveness of the Group's financial reporting
- Review the content of the Annual Report and advise the Board whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy
- Review the engagement, effectiveness and independence of the External Auditor
- Review audit and non audit services and fees
- Review the Committee Terms of Reference

## Audit Committee Activities

To discharge its responsibilities, during the year, the Committee has undertaken the following activities:

### **Financial Statements and Reports**

- Reviewed and discussed changes to the UK Corporate Governance framework, including the update issued on 16 June 2016, and its impact on reporting requirements
- Reviewed and approved the External Audit fees for 2016
- Reviewed the annual and half-yearly financial reports and related statements and discussed:
  - Key accounting judgements
  - The Income Statement for both the half year and the full year
  - Exceptional items - The Committee has challenged the basis and the nature of the items and determined whether separate disclosure was appropriate or not
  - Cost of capital
  - Goodwill impairment
  - Brexit effect
- Reviewed and considered the significant issues in relation to the Financial Statements and how these have been addressed, including:
  - Going Concern – The 2014 UK Corporate Governance Code provision C.2.2 has set out a requirement for the Directors to explain in the Annual Report how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate. The Committee reviews the analysis undertaken in relation to strategic risk management and risk assessment, risk appetite, internal control, risk and control reporting structure and the principal risks identified on an ongoing basis. This monitoring and review validates the draft statement which was documented for the first time in 2016.

## Audit Committee Report continued

### **External Audit**

- Monitored the independence and ensured the objectivity of the External Auditor
- Approved all non-audit service work over £10,000
- Reviewed and approved the Audit Plan for the 2016 audit
- Reviewed the performance of the External Auditor and considered the reappointment of Deloitte LLP as auditor for 2017 and recommended appointment to the Board
- Considered and recommended to the Board the new engagement partner for the audit in line with partner rotation rules

### **Internal Audit**

- Considered and agreed the strategic and annual Internal Audit plan
- Reviewed and followed up on management responses to Internal Audit findings and recommendations
- Reviewed the performance of RSM UK and considered their reappointment
- Reviewed the performance and the resulting recommendations of the Internal Audits into the Site Operational Review and Payroll

### **Risk Management**

- Reviewed the key risks to the Group and the plans to mitigate these risks
- Reviewed the Purchasing Approval levels of the Group

### **Terms of Reference**

- The Committee's Terms of Reference are reviewed annually in line with the Institute of Chartered Secretaries and Administrators (ICSA) guidance to reflect the UK Governance Code.

To assess the effectiveness of our External Auditor, a formal performance review is undertaken on an annual basis to identify the adequacy of their approach to:

**Resource quality:** – it is important that the External Auditor has achieved the right balance of audit team resource. With the team providing both continuity and knowledge, as well as a fresh perspective through new team members to allow processes and accounting policies to be challenged.

**Effective communication:** – key audit judgements are communicated at the earliest opportunity to promote discussion and challenge between the External Auditors and management, informing AMS of audit issues as they arise, so that these can be dealt with in a timely manner. Communication regarding good practice, changes to reporting requirements and accounting standards is also needed to enable the company to be prepared prior to year end. Timely provision of audit papers is required to enable adequate management review and feedback. The quality of the reports and publications provided by the External Auditor in terms of content, relevance and presentation is reviewed.

**Scoping and planning:** – specifically relating to the year-end audit work: timely provision of the External Audit strategy and timetable to Audit Committee and management.

**Fees:** – are transparent and communicated prior to the commencement of any work undertaken. Where variations occur, these are informed at the earliest opportunity to enable dialogue and negotiation to be undertaken.

**Auditor independence:** – the Committee continues to monitor the External Auditor's compliance with applicable ethical guidance and guidelines and considers the independence and objectivity of the External Auditor as part of the Committee's duties. The Committee received and reviewed written confirmation from the External Auditor on all relationships that, in their judgement, may bear on their independence. The External Auditor has also confirmed that they consider themselves independent within the meaning of UK regulatory and professional requirements.



The External Auditor may be appointed to provide non-audit services where it is in the Group's best interests to do so, provided a number of criteria are met. These are that the External Auditor does not:

- Audit their own work
- Make management decisions for the Group
- Create a conflict of interest
- Find themselves in the role of an advocate for the Group

All projects where forecasted expenditure exceeded £10,000 were approved by the Audit Committee. Deloitte LLP has been the Group's External Auditor for eight financial years and the engagement partner has completed his five years as audit partner. Therefore, to aid in the smooth transition of engagement partner in 2017, Deloitte has already commenced the introduction of a new engagement partner to the Group and the External Audit team. Following the positive outcome of a performance and effectiveness evaluation undertaken by the management, the Audit Committee concluded that it was appropriate to recommend to the Board the reappointment of Deloitte LLP as the Group's External Auditor for the next financial year.

## Internal Audit

Internal Audit at AMS is managed and delivered by an external firm of Auditors, RSM UK, to provide this service under the direction and guidance of the Audit Committee. Against an agreed mandate, this function performs independent Internal Audits across the Group. A two-year Internal Audit strategy and an annual Internal Audit plan are approved by the Audit Committee each year. Internal Audits target areas of risk and provide assurance that key controls are effectively designed and operated consistently. Audit reports are produced to convey the extent of control assurance derived from the formal testing of controls. RSM UK's findings and recommendations are reported directly to the Audit Committee.

### **The Audit Committee:**

- Reviews and approves the charter of the Internal Audit function and ensures the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for Internal Auditors;
- Approves the appointment and the termination of the Internal Auditors;
- Ensures the Internal Auditor has direct access to the Board Chairman and to the Committee Chairman and is accountable to the Committee;
- Reviews and assesses the annual Internal Audit workplan;
- Receives a report on the results of the Internal Auditors work at least twice per year;
- Reviews and monitors management's responsiveness to the Internal Auditor's findings and recommendations and the corrective actions taken;
- Meets with the Internal Auditor at least once a year without the presence of management; and
- Monitors and reviews the effectiveness of the Company's controls in the context of the Company's overall risk management system.

All Internal Audit reports are discussed with the Audit Committee and the External Auditor, and the recommendations considered and acted upon. RSM UK attends Audit Committee meetings twice a year and updates the Audit Committee in writing ahead of each Committee meeting.

In 2016 the Internal Auditor undertook detailed audits of the Process Improvement Plan and Group Payroll at Plymouth, together with a review of previous audit reports. The recommendations of Internal Audit were accepted by the Audit Committee and acted upon. In 2017 audits are scheduled for Cyber Security and Planning and Forecasting. The Group also calls on the services of external bodies to review the controls in certain areas of the Group. The quality assurance systems are reviewed by the Group's notified bodies, the British Standards Institute (BSI) and TÜV Rheinland LGA Products GmbH, on a regular basis.

The Internal Controls Framework is available for all employees to view on the Intranet. Updates are driven by an underlying process change or by the outcomes of Internal Audit projects. Issues are identified, the policies are updated and then approved by the Group Financial Controller and Chief Financial Officer. The updated policies are then formally approved by the Board.

## Audit Committee Report continued

### Risk Management and Internal Controls

To achieve good internal controls the Board takes responsibility for the Group's system of internal control and for reviewing its effectiveness, taking guidance from the Audit Committee. The Board monitors and reviews all material controls including financial, operational and compliance controls. Risks arising from operations can only be managed rather than eliminated. Only reasonable and not absolute assurances can be made against material loss or misstatement. Key features of the internal control system are:

- The Group has an organisational structure with clear responsibilities and lines of accountability. The Group promotes the values of integrity and professionalism. The members of the Board are available to hear, in confidence, any individual's concerns about improprieties;
- The Board has a schedule of matters reserved for its consideration. This schedule includes potential acquisitions, capital projects, treasury policies and management systems, risk management systems and policies, approval of budgets, re-forecasts and Health and Safety
- The Board or the Audit Committee reviews the Risk Register at least twice a year;
- The Board monitors the activities of the Group through the management accounts, monthly forecasts and other reports on current activities and plans. The Senior Management Team, at least monthly, monitors financial and operational performance in detail;
- The Group has set appropriate levels of authorisation which must be adhered to as the Group concludes its business;
- An Enterprise Resource Planning (ERP) system with in-built controls over process and authority, minimising manual intervention and overall strengthening controls is in place in the UK and the Netherlands and is being implemented in Germany; and
- The Group operates a 'whistle-blowing' policy enabling any individual with a concern to approach any of the Non-Executive Directors in confidence.

As part of the External Auditor's annual review process, any weaknesses identified in the Group's internal control system are reported to and discussed with the Audit Committee and corrective actions are agreed.

#### **Risk Management**

The Group's corporate objective is to maximise long-term shareholder value, recognising that creating value is the reward for taking and accepting risk. The Directors consider risk management to be crucial to the Group's success and give it a high priority to ensure that adequate systems are in place to evaluate and limit risk exposure.

Management formally reviews the Risk Register at least twice a year. Risks are evaluated for both likelihood and financial impact and scored against both criteria. This is used to identify the most significant risks the business faces. These risks have been identified and are discussed in more detail in the Strategic Review on pages 4 to 41. Actions are agreed to mitigate the risks.

At each review, progress on actions is assessed and further actions may be identified. Risks are re-scored and the effects of mitigating actions taken are used to identify a residual risk score. Management also gives consideration to other risks that have been identified, score these risks to understand significance and assign actions to be taken to mitigate, if required. The process for identifying, evaluating and managing the risks faced by the Group is ongoing throughout the year.

Management report to the Audit Committee at least twice a year on the Risk Register. The Audit Committee reviews the Group's Risk Register and the effectiveness of Management's actions to mitigate the risks.

As part of the External Auditor's annual review process, any key risks and areas of audit focus are also identified and agreed with the Audit Committee.

In September 2014 the FRC issued guidance on 'Risk Management, Internal Control and Related Financial & Business Reporting'. The new guidance was applied in the Group's 2015 accounting period. The Audit Committee believes it meets the FRC requirements.

#### **Mary Tavener**

Company Secretary

28 April 2017

## Remuneration Report

The Board presents the Remuneration Report for the year ended 31 December 2016.

As an AIM quoted company, Advanced Medical Solutions Group plc is not required to comply with the Directors' Remuneration Report regulations requirements under Main Market UK Listing Rules or those aspects of the Companies Act applicable to listed companies. The following disclosures are made voluntarily.

The Remuneration Committee (Committee) comprises the three Non-Executive Directors of the Group and the Chairman of the Board. Penny Freer is the Chairman of the Committee. Biographical information on the Committee members is set out on pages 42 to 43. They have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflict of interest arising from cross-directorships and no day-to-day involvement in running the business. They do not participate in any bonus, share option or pension arrangements. The Committee met four times during the year. All the meetings were attended by all members. The Board has accepted the Committee's recommendations in full.

The Committee, on behalf of the Board, and in consultation with the Chief Executive Officer, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of the Executive Directors of all Group companies and management and staff earning in excess of £100,000 per annum. It administers the share option schemes, determines the design of performance-related pay schemes, sets the targets for such schemes and approves payment under such schemes. The Terms of Reference of the Committee are reviewed each year and are available on the Company's website, 'www.admedsol.com'.

A resolution will be put to shareholders at the Annual General Meeting on 7 June 2017 asking them to consider and approve this Report.

The activities the Remuneration Committee undertook in 2016 were:

Month	Principal Activities
February	<ul style="list-style-type: none"> <li>→ Review of 2015 personal objectives and setting of 2016 personal objectives for Executive Directors</li> <li>→ Review of 2015 Executive Director and Senior Management Team (SMT) bonus and Deferred Annual Bonus awards</li> <li>→ Review of proposed share option and LTIP awards</li> </ul>
June	<ul style="list-style-type: none"> <li>→ Ratification of LTIP and share option awards for SMT</li> <li>→ Ratification of bonus and Deferred Annual Bonus awards for Executive Directors and SMT</li> <li>→ Review of Leaver Delegation Policy</li> <li>→ Review of legal and corporate governance developments</li> </ul>
October	<ul style="list-style-type: none"> <li>→ Review of compliance with Executive Shareholding Policy for Executive Directors and SMT</li> <li>→ Review of UK pension arrangements</li> <li>→ Review of net settling of LTIPs and unapproved options</li> <li>→ Review of Hermes Remuneration Principles and consideration of remuneration market trends</li> <li>→ Initiation of salary benchmarking project with Towers Watson</li> </ul>
November	<ul style="list-style-type: none"> <li>→ Consideration and approval of 2017 basic salary for Executive Directors and SMT</li> <li>→ Discussion on pension arrangements for Executive Directors and SMT</li> <li>→ Review of results of Committee Self Assessment questionnaire, Terms of Reference and Directors Expenses Policy</li> <li>→ Agreement of 2017 Remuneration Committee Meeting dates</li> </ul>

## Remuneration Report continued

### Remuneration Policy

The remuneration policy is formulated around the need to provide a remuneration structure that is competitive to attract, retain and motivate Senior Executives of the calibre required to develop and implement the Company's strategy and enhance earnings over the long-term, whilst at the same time not paying more than is necessary for this purpose. A cohesive reward structure consistently applied with links to corporate performance is seen as crucial in ensuring attainment of the Group's strategic goals. It is the intention of this policy to conform to best practice as far as reasonably practicable. It will continue to apply for 2017 and subsequent years, subject to regular review and supported by independent advice. The Committee retains the right for discretion, although no discretion was used in 2016. The policy is based around the following key principles:

- Total rewards will be set at levels that are sufficiently competitive to enable the recruitment and retention of high calibre Senior Executives;
- Total incentive-based rewards will be earned through the achievement of performance conditions consistent with shareholder interests;
- The design of long-term incentives will be prudent and will not expose shareholders to unreasonable financial risk; and
- In considering the market positioning of reward elements, account will be taken of the performance of the Group and of each individual Executive Director.

Kepler, part of Mercer (previously Kepler Associates), were engaged in 2014 to advise the Committee with regard to the remuneration of the Executives and SMT. The Committee took into account recommendations which included the introduction of an Executive Shareholding Policy requiring the Executive Directors and SMT to hold a minimum of 100% and 50% respectively, of their pre-tax annual salary in Company shares within five years of attaining office, as well as changes to the bonus scheme. As a result of the Committee's recommendations a Deferred Annual Bonus (DAB) Scheme was approved by shareholders at the 2014 AGM and options have been issued under the DAB every year since its introduction. All SMT members exceeded the threshold as at 31 December 2016, except one member who had only been appointed 18 months earlier. Each Executive Director's remuneration package consists of basic salary, bonus, LTIPs, health and insurance benefits, and pension contributions. The Committee ensures that there is a balance between fixed and performance related remuneration elements.

### Consideration of Shareholder Views

In formulating the remuneration policy, the Committee takes into account guidance issued by shareholder representative bodies, including the Investment Association, the Pensions and Lifetime Savings Association and Institutional Shareholder Services. The Committee also takes into consideration any views expressed by shareholders during the year (including at the AGM) and encourages open dialogue with its largest shareholders. Major shareholders are consulted in advance about changes to the remuneration policy.

### Consideration of Employment Conditions elsewhere in the Group

The Committee considers the general basic salary increase for the broader employee population when determining the annual salary increases and remuneration for the Executive Directors. For example, as explained on page 59, reflecting the wider cost of living increase for the 2017 financial year, the Committee determined to only increase the basic salary for the Executive Directors by the cost of living.

### Statement of Voting at General Meeting

At the 2016 AGM, the percentages of votes cast 'for', 'against' and 'withheld' in respect of the Directors' Remuneration Report were as follows:

Resolution	No. of shares	Votes cast 'for'	Votes cast 'against'
To approve the Directors' Remuneration Report	122,758,450	99.95%	0.05%

## Overview of Director's Remuneration Policy

### Directors' Policy Table

Element of remuneration	Purpose and how it supports strategy	How the element operated and maximum opportunity	Framework used to assess performance
<b>Base Salary</b>	<p>To provide competitive fixed remuneration.</p> <p>To attract, retain and motivate Executive Directors and the SMT of the right calibre to deliver the Company's strategy and to provide a core level of reward for the role.</p>	<p>In line with the policy outlined on page 56 salary levels of Executive Directors and the SMT are set after taking into account experience, responsibilities and performance, both on an individual and business perspective, and external market data (benchmarked against companies of a similar size and complexity and other companies in the same industry sector).</p> <p>Salaries are reviewed annually (normally December, with any changes effective from 1 January). Details of the current salaries of the Executive Directors are set out below. This review was last carried out in November 2016. There is no prescribed maximum annual increase. The Committee will take into account the general increase for the broader employee population in the UK but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role. Current salary levels are set out on page 59.</p>	<p>Where there is a change in responsibility, progression in the role, change in size or structure of the Group or increased experience of the Executive Director or member of the SMT, the Committee retains the discretion to award a higher increase than the UK workforce.</p>
<b>Benefits</b>	<p>To attract, retain and motivate Executive Directors and the SMT of the right calibre to deliver the Company's strategy by providing a market competitive level of benefit provision.</p>	<p>The range of benefits that may be provided by the Committee after taking into account local market practice. The Executive Directors' benefits currently comprise private medical insurance. Additional benefits may be provided as appropriate. There is no defined maximum as the cost benefits can vary annually and the Company requires the ability to remain competitive.</p>	N/A
<b>Annual Performance Bonus</b>	<p>Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long-term strategic needs of the business.</p>	<p>Each of the Executive Directors is entitled under the terms of their service agreements to receive an Annual Bonus to be determined by the Committee based on the Group's financial performance and the achievement of specific personal targets set by the Committee.</p> <p>The maximum Annual Bonus potential is 120% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer, of which 85% of the award is dependent on financial performance targets and 15% on personal objectives. Bonuses are paid in a mixture of cash and shares with an element deferred under the Deferred Annual Bonus scheme.</p>	<p>The annual performance bonus is focused on the delivery of strategically important performance targets. These include demanding financial and non-financial measures. The financial targets are currently set against Group revenue, Group profit before tax and Earnings Per Share. 85% of the award is dependent upon the financial performance of the Group and 15% is achievable for meeting personal objectives.</p> <p>The SMT are entitled to receive up to 50% of their salary in bonus, of which 86% of the award is dependent on financial performance targets and 14% on personal objectives. The Committee may use different measures and/or weightings for future bonus cycles to take into account changes in the strategic needs of the business.</p>
<b>Deferred Annual Bonus (DAB)</b>	<p>Provides mechanism to exercise malus provisions.</p>	<p>Following advice from Mercer (formally Kepler) regarding corporate governance developments in remuneration, the Committee introduced a Deferred Annual Bonus (DAB) Scheme after receiving shareholder approval at the 2014 AGM whereby both Executive Directors and the SMT are required to defer up to 25% of their Annual Bonus into share awards that will vest after three years.</p>	N/A



## Remuneration Report continued

Element of remuneration	Purpose and how it supports strategy	How the element operated and maximum opportunity	Framework used to assess performance
<b>Deferred Share Bonus Plan (DSB)</b>	To align the interests of the Executive Directors, the SMT and the employees with shareholders, incentivise long-term value creation and is a key tool for retention of staff.	The Deferred Share Bonus Plan (DSB) is available to all employees and allows them to choose for the payment of some bonus to be made in the form of shares. It also allows for the provision of matching shares if the bonus shares are held for a set period. The DSB encourages employees to acquire shares in the Company and retain those shares to receive additional free shares from the Company. It acts as a valuable retention tool aligning employees' interests with those of shareholders. The first year that the DSB operated was in 2007. The existing scheme received shareholder approval at the 2015 AGM.	N/A
<b>Long Term Incentive Plan (LTIP)</b>	To align the interests of the Executive Directors and the SMT with shareholders and incentivise long-term value creation.	<p>The Company introduced a new Long-Term Incentive Plan (2014 LTIP) at the 2014 AGM, replacing the LTIP introduced in 2006. The LTIP permits an annual grant of shares that vest subject to performance and continued employment. The LTIP awards are granted in accordance with the rules of the plan. Individuals who are entitled to awards under the 2014 LTIP are not eligible to receive options under the Company's Share Option Plan or the Executive Share Option Scheme.</p> <p>Under the rules of the LTIP, the maximum annual award size is 200% of salary. Details of the proposed award level for 2016 are set out below. Awards under the LTIP may be granted in the form of nil-cost options or cash (where the award cannot be settled in shares). Awards are currently structured with a consideration of £1.</p>	<p>50% of the Award is determined based on the Total Shareholder Return (TSR) performance of the Company compared with the AIM Healthcare Share Index over the vesting period and 50% of the Award is determined by the growth in the average Earnings Per Share (EPS) per year of the Company over the three-year vesting period commencing on the award date.</p> <p>Of the 50% of the Award that is determined by reference to the AIM Healthcare Share Index, no shares will be awarded if the Company is ranked below the median. Awards will vest on a sliding scale from 25% to 100% for performance above median to upper quartile performance against the Index. The performance measurement for EPS will be based on the percentage increase of the Company's EPS over a three-year period commencing on the 1 January. Awards will vest on a sliding scale from 25% to 100% for an average increase of EPS from target EPS to an average increase of EPS of 20% over the vesting period. No awards will be made for an average increase of EPS below target EPS. In 2014 the EPS target was set at 5%.</p> <p>The Committee has the flexibility to make appropriate adjustments to the performance conditions to ensure that the Award achieves its purpose. Any vesting is also subject to the Committee being satisfied that the Company's performance on these measures is consistent with the underlying performance of the business.</p>
<b>Pensions</b>	To provide a market competitive remuneration package to enable the recruitment and retention of the Executive Directors and SMT.	<p>All UK employees are entitled to become members of the Group Pension and Life Assurance Scheme which was set up with effect from 1 February 1999. The Scheme entitles Executive Directors to contribute up to 10% of salary with the Group contributing 10%. All other UK employees contribute a minimum of 3% of their salary which is matched by a 6% contribution of the Group. The Pension Plan is a money purchase scheme. In 2011, the Group made arrangements allowing individuals to sacrifice their salary for pension contributions.</p> <p>Following changes in the taxation of personal UK pension contributions, and limitations on the size of individual personal pension funds, the Group has agreed that an employee may substitute the pension contributions they would have received from the Group for salary.</p> <p>Automatic enrolment has been implemented for all UK employees.</p>	N/A

## Directors' Emoluments – Single Figure of Remuneration

The various elements of the remuneration for each Executive Director in 2015 and 2016:

Name	Salary and fees		Annual Bonus		Deferred Annual Bonus		LTIPs vested		Gains on DSBs vested		Benefits		Pensions		Total remuneration	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Chris Meredith	265	255	173	181	58	60	254	218	7	–	1	1	26	26	784	741
Mary Tavener	200*	180	111	118	37	39	204	169	–	–	1	1	26	40	579	547
Peter Allen	69	68	–	–	–	–	–	–	–	–	–	–	–	–	69	68
Steve Bellamy	41	38	–	–	–	–	–	–	–	–	–	–	–	–	41	38
Penny Freer	41	38	–	–	–	–	–	–	–	–	–	–	–	–	41	38
Peter Steinmann	35	34	–	–	–	–	–	–	–	–	–	–	–	–	35	34
Total	651	613	284	299	95	99	458	387	7	–	2	2	52	66	1,549	1,466

\* Sacrificed salary of £5,125 in January to March 2016 in lieu of Pension. Annual Salary of £205,000

The table above summarises the payments made and additional amounts earned by the Executive Directors and Non-Executive Directors for the 2015 and 2016 financial years. The Chairman of the Audit Committee and Remuneration Committee (Steve Bellamy and Penny Freer) received a supplementary fee of £3,000 for chairing the Committees. The Deferred Annual Bonus recorded in the table above is in respect of the 2015 and 2016 financial years, to be paid or deferred into shares, which will not be received until 2018 and 2019 respectively. The Executive Directors were granted further LTIPs as detailed on page 60. All Directors have confirmed that, save as disclosed in the single figures of remuneration tables above, they have not received any other items in the nature of remuneration.

## Salaries and Fees

### Executive Directors

The Remuneration Committee determined there would be an increase of 2% for Executive Director base salary for 2017. The Group's employees also received a 2% salary increase for the 2017 financial year.

Director	2017	2016	% increase
Chris Meredith	£270,300	£265,000	2%
Mary Tavener	£209,100	£205,000	2%

## Annual Performance Bonus

The Annual Bonus contains two elements – the cash element and the deferred share element. The bonus is determined on both financial targets and personal objectives. Up to 25% of the bonus is deferred into shares in line with the malus provisions. The Annual Bonus payments presented in the table above were based on performance against growth in Group revenue, adjusted Profit before Tax, and EPS, and performance against personal performance objectives measured over the relevant financial year. The maximum bonus potential for the year ending 31 December 2017 will remain as 120% of salary for the Chief Executive Officer and 100% for the Chief Financial Officer.

The personal objectives for the Executive Directors are usually set on an individual basis. The personal objectives of each Executive Director for the year ended 31 December 2016 were linked to the corporate, financial, strategic and other non-financial objectives of the Company.

Up to 18% of salary was payable to the Chief Executive Officer and 15% of salary to the Chief Financial Officer upon achievement of personal objectives. Based on the assessment against objectives set, the Committee determined that the performance of the Chief Executive Officer and Chief Financial Officer warranted a 50% payout in relation to the non-financial elements of their respective bonuses, which resulted in payment worth 9% of salary to the Chief Executive Officer and 7.5% of salary to the Chief Financial Officer. The Committee consider the 2017 objectives to be commercially sensitive as they give our competitors insight into our business plans and therefore are not detailed in this Report.

The bonus for the 2016 financial year is accrued and paid in 2017. Overall the 2016 bonus payments made in respect of the 2015 financial year were as follows:

Name	Bonus paid in 2016 (2015 Financial Year)	Deferred Annual Bonus	Percentage of salary (for total bonus)	Maximum % of salary
Chris Meredith	£180,752	£60,251	94.5%	120%
Mary Tavener	£118,138	£39,379	78.8%	100%

## Remuneration Report continued

### Vesting of LTIPs for the year ended 31 December 2016

The LTIPs granted on 19 September 2013 to the Executive Directors under the 2006 Long-Term Investment Plan were based on performance criteria during the three-year period, including the year ended 31 December 2015. The LTIPs vested on 19 September 2016. The performance conditions were:

- 50% of the Award is subject to a performance condition based on the Company's Total Shareholder Return (TSR) performance over the performance period relative to the constituent companies of the AIM Healthcare Share Index over the performance period; and
- 50% of each Award is subject to a performance condition based on the growth in the Company's underlying diluted earnings per share (EPS) over the performance period

The Performance Targets were as follows:

TSR Performance	Vesting %
Below 50% of the comparator group	0%
Between 50% and 75% of comparator group	Pro-rata vesting between 0% and 100% based on the ranking in the comparator group
EPS compound annual growth rate	Vesting %
<10% CAGR	0%
10%-20% CAGR	Pro-rata vesting between 25% and 100%

Following a review of the performance conditions of the LTIPs granted in September 2013, 50% of the award vested in September 2016.

In the Directors' emoluments single figure remuneration table on page 59, the figure attributable to the LTIPs granted on 19 September 2013 is calculated by multiplying the number of shares in respect of which the Award vested by the share price on the vesting date.

### Directors' Interests in the Long-Term Incentive Plan (LTIP)

On 18 April 2016 the following LTIP awards were granted to each Executive Director:

Director	Type of Award	Basis of grant awarded	Share price at date of grant (£)	Number of shares granted	Face value of grant (£)	Vesting determined by performance over
Chris Meredith	Nil-cost option	100% of salary	1.846	143,553	265,000	See below
Mary Tavener	Nil-cost option	100% of salary	1.846	111,050	205,000	See below

EPS – Three financial years to 31 December 2018

TSR – Three years to 18 April 2019

### Outstanding Share Awards

The maximum number of shares to be allocated to the Executive Directors under the LTIP, in each case for an aggregate consideration of £1, are as follows:

	As at 31 December 2015	Exercised in the year	Issued in the year	Lapsed in the year	As at 31 December 2016	Market price at date of grant (p)	First vesting date
Chris Meredith	188,628	–	–	–	<b>188,628</b>	88.00	15 April 2014 (vested)
	143,631	–	–	–	<b>143,631</b>	76.75	6 September 2015 (vested)
	227,111	–	–	113,556	<b>113,555</b>	90.00	19 September 2016 (vested)
	210,753	–	–	–	<b>210,753</b>	116.25	6 June 2017
	168,316	–	–	–	<b>168,316</b>	151.50	10 September 2018
	–	–	143,553	–	<b>143,553</b>	184.60	18 April 2019
Mary Tavener	111,314	–	–	–	<b>111,314</b>	76.75	6 September 2015 (vested)
	176,011	–	–	88,006	<b>88,005</b>	90.00	19 September 2016 (vested)
	148,817	–	–	–	<b>148,817</b>	116.25	6 June 2017
	132,013	–	–	–	<b>132,013</b>	151.50	10 September 2018
	–	–	111,050	–	<b>111,050</b>	184.60	18 April 2019

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 58. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved. During the year ended 31 December 2016 the Executive Directors did not exercise any LTIPs. Awards made have no performance re-testing facility.

## Approach to Remuneration of Executive Directors on Recruitment

In the cases of appointing a new Executive Director, the Committee may make use of all the existing components of remuneration. The salaries of new appointments will be determined by reference to the experience and skills of the individual, relevant market data, internal relativities and their current salary. New appointments will be eligible to receive a personal pension, benefits and to participate in the Company's share schemes.

## Non-Executive Directors

Non-Executive Directors are appointed under arrangements that may generally be terminated by either party on six months notice and their appointment is reviewed annually. The fees of the Non-Executive Directors are determined by the Executive Directors, taking into account the time and responsibility of each role. Additional fees relate to the supplementary fee paid to the Chairmen of the Audit and Remuneration Committees. No Director or Senior Manager shall be involved in any decisions as to their own remuneration. Non-Executive Directors receive travel expenses but do not participate in any incentive arrangements. All Non-Executive Directors have confirmed that, save as disclosed in the single figures of remuneration tables above, they have not received any other items in the nature of remuneration. Further details of the Non-Executive Director fees are outlined below.

Element of remuneration	Purpose and how it supports strategy	How the element operated and maximum opportunity	Framework used to assess performance
Non-Executive Director fees and benefits	Reflects time commitments, responsibilities of each role, fees paid and benefits provided by similar sized companies	As per the Executive Directors there is no prescribed maximum annual increase. The Board is guided by the general increase in the Non-Executive Director market and the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role. Current fee levels are set out on page 59	Non-Executive Directors do not participate in variable pay arrangement and do not receive retirement benefits

## Service Agreements

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the quality required to manage the Company. The service contract of each Executive Director is not fixed term and is terminable by either party giving not less than 12 months' notice in writing. The Executive Directors' contracts are available to view throughout the year at the Company's registered office and at the Annual General Meeting. The Remuneration Committee reviews the contractual terms for new Executive Directors to ensure they reflect best practice. Details of the service contracts for the Executive Directors and letters of appointment of the Non-Executive Directors are as follows:

Executive Director	Date of Contract	Unexpired Term (months) or Rolling Contract	Notice Period (months)
Chris Meredith	3 May 2005	Rolling Contract	12
Mary Tavener	28 June 1999	Rolling Contract	12

Non-Executive Directors	Date of Contract	Unexpired Term (months) or Rolling Contract	Notice Period (months)
Peter Allen	4 December 2013	Rolling Contract	6
Steve Bellamy	1 February 2007	Rolling Contract	6
Penny Freer	1 March 2010	Rolling Contract	6
Peter Steinmann	1 July 2013	Rolling Contract	6

## Remuneration Report continued

### Policy on Payment for Loss of Office – Executive Directors

The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation on a case-by-case basis accordingly, taking into account the relevant contractual terms, the circumstances of the termination and any applicable duty to mitigate. There are no special provisions in the event of loss of office or for payment in lieu of notice (PILON). The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation accordingly.

If such circumstances were to arise, the Executive Director concerned would have no claim against the Company for damages or any other remedy in respect of the termination. The Remuneration Committee would apply general principles of mitigation to any payment made to a departing Executive Director and will honour previous commitments as appropriate.

The table below summarises how the awards under the Annual Bonus and 2014 LTIP are typically treated in different leaver scenarios and on a change of control. Whilst the Remuneration Committee retains overall discretion for determining 'Good Leaver' status, it typically defines a 'Good Leaver' for the Annual Bonus and 2014 LTIP as circumstances which include retirement, ill health or injury, disability, redundancy and the employing company ceasing to be under the control of the Group.

The 2014 DAB defines a 'Good Leaver' as ceasing to be a Director or employee of a Group Company where that individual is not a 'Bad Leaver'. A 'Bad Leaver' is defined as a Director or employee leaving the business due to the financial statements requiring restatement. Final treatment is subject to the Committee's discretion.

Event	Timing of vesting/award	Calculation of vesting/payment
<b>Annual Bonus/DAB</b>		
'Good Leaver'	<ul style="list-style-type: none"> <li>→ Annual Bonus payment would be negotiated as part of the terms of the leaving arrangements (at the discretion of the Remuneration Committee)</li> <li>→ Unvested Deferred Annual Bonus share awards vest at the normal vesting date (or earlier at the Remuneration Committee's discretion)</li> </ul>	→ No automatic entitlement to Annual Bonus on a pro-rata basis (at the discretion of the Remuneration Committee)
'Bad Leaver'	→ Not applicable	→ Individuals lose the right to their Annual Bonus and unvested Deferred Annual Bonus share awards
Change of control	→ Annual Bonuses are paid and unvested Deferred Share Bonus share awards vest on the date of notification to the Executive Directors regarding the change of control	→ Annual Bonus is paid only to the extent that any performance conditions have been satisfied and is pro-rated for the proportion of the financial year worked to the effective date of change of control
<b>LTIP</b>		
'Good Leaver'	→ On normal vesting date (or earlier at the Remuneration Committee's discretion)	→ Unvested awards vest to the extent that any performance conditions have been satisfied and a pro-rata reduction applies to the value of the awards to take into account the proportion of vesting period not served
'Bad Leaver'	→ Unvested awards lapse	→ Unvested awards lapse on cessation of employment
Change of control	→ Unvested awards vest on the date of notification to the Executive Directors regarding the change of control	<ul style="list-style-type: none"> <li>→ Unvested awards vest and a pro-rata reduction applies for the proportion of the vesting period not served</li> <li>→ Outstanding deferred shares vest in full</li> </ul>

Upon exit or change of control DSB awards will be treated in line with the DSB plan rules.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee retains discretion to settle other amounts reasonably due to the Executive Director.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement and/or consultancy arrangements. These will be used sparingly and only entered into where the Remuneration Committee believes that it is in the best interests of the Company and its shareholders to do so.

There are no agreements between the Group and its Directors or employees for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

### Payments to past Directors

No payments were made to past Directors during the year ended 31 December 2016.

### Payments for Loss of Office

No payments for loss of office were made during the year ended 31 December 2016.



## Statement of Directors' Shareholdings and Share Interests

Director	Beneficially owned at 31 December 2015	Beneficially owned at 31 December 2016	Outstanding LTIP awards at 31 December 2016	Outstanding deferred share awards at 31 December 2016	Outstanding share awards under DSB at 31 December 2016	Shareholding as a % of Issued Share Capital at 31 December 2016
Chris Meredith	1,187,891	<b>1,190,322</b>	<b>968,436</b>	<b>82,218</b>	<b>28,995</b>	<b>0.56%</b>
Mary Tavener	1,825,698	<b>1,828,129</b>	<b>591,199</b>	<b>57,870</b>	<b>16,516</b>	<b>0.87%</b>

Executive Directors are required to hold shares worth 100% of pre-tax annual salary in Company shares in compliance with the Executive Shareholding Policy. Compliance with this policy as at 31 December 2016 is shown below:

Director	Shares held*	Vested DSB's	LTIPs (50% of vested /unexercised LTIPs)	Total Shares	Target shareholding target (£)	Actual shareholding value (£)	% vs holding target
Chris Meredith	1,190,322	38,368	222,592	1,451,282	<b>265,000</b>	<b>3,218,217</b>	<b>1,214%</b>
Mary Tavener	1,828,129	25,006	99,659	1,952,794	<b>205,000</b>	<b>4,053,876</b>	<b>1,977%</b>

\* Beneficially held by the Executive Director (or their spouses and children)

The shareholding as a % shown above is based on the share price as at 31 December 2016.

## CEO Total Remuneration

The total remuneration figure for the Chief Executive Officer during each of the last five financial years is shown in the table below. The total remuneration figure includes the salary, Annual Bonus based on that year's performance, gains made on DSBs in that year and LTIP awards based on the three-year performance periods ending in the relevant year. The Annual Bonus payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

Year ended 31 December	2012	2013	2014	2015	<b>2016</b>
Total remuneration (£'000)	695	331	645	741	<b>785</b>
Annual Bonus (% of maximum)	29.4%	50.1%	59.7%	78.76%	<b>72.5%</b>
LTIP vesting (% of maximum)	81.7%	–	61.5%	55.1%	<b>50%</b>

## Relative Importance of Spend on Pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends, tax and profits for the year attributable to owners of the parent:

Year ended 31 December	2015 (£m)	<b>2016 (£m)</b>	change %
Staff costs	21.6	<b>26.2</b>	21.3%
Dividends <sup>1</sup>	1.5	<b>1.8</b>	17.2%
Tax	2.9	<b>3.4</b>	18.5%
Profits for the year attributable to owners of the parent	14.1	<b>15.7</b>	11.1%

<sup>1</sup> The dividend figures relate to amounts payable in respect of the relevant financial year.

£1,339,000 (2015:£1,108,000) of the staff costs figure relate to pay for the Directors, of which £778,000 relates to the highest paid Director (2015:£741,000). Total pension contributions were £944,000 (2015:£770,000) and for the highest paid Director £26,000 (2015:£26,000).

## Private Healthcare

Executive Directors and other senior employees are entitled to private healthcare and permanent health insurance.

## Share Options

Employees, except for participants in the Long-Term Incentive Plan (LTIP), may be granted options over shares in the Company under the Company Share Option Plan and Executive Share Option Scheme, under which either approved or unapproved options may be granted. Options granted under these schemes are not offered at a discount.

The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committee. Options are exercisable normally only after the third anniversary of the date of grant (or such later time as may be determined at the time of grant) and cannot, in any event, be exercised later than the tenth anniversary of the date of grant. Awards will not vest if the Group is not profitable at the end of the performance period. Full details are included in Note 29 on pages 97 to 101.

## Remuneration Report continued

### Company Share Option Plan (CSOP)

The Company received approval for a Company Share Option Plan (CSOP) on 2 June 2010. This was adopted after HMRC approval on 13 August 2010. This Plan allows relevant employees to receive up to £30,000 of Company shares by reference to the market value of these shares on the grant date and to benefit from the growth in value of those shares.

### 2009 Executive Share Option Scheme

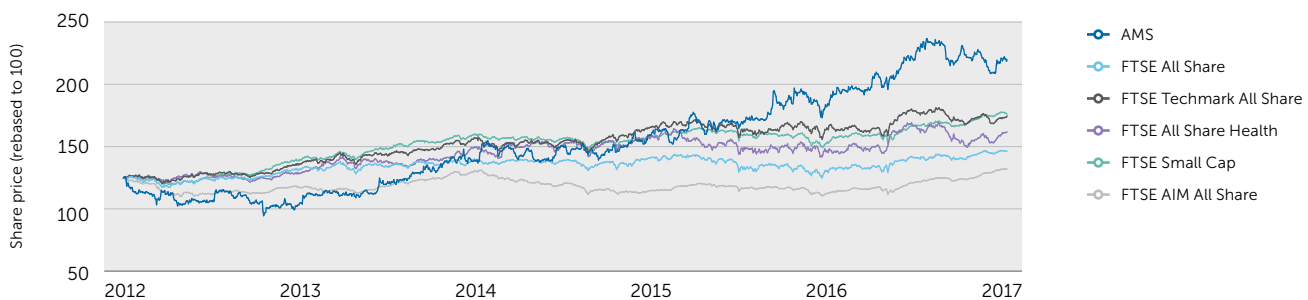
Up until 2010, the Company was able to offer options under an Enterprise Management Incentive (EMI) Scheme. The Company no longer satisfies the requirements for operating this scheme, however, options already granted will be allowed to vest in accordance with the scheme rules.

### Share Performance – 2016

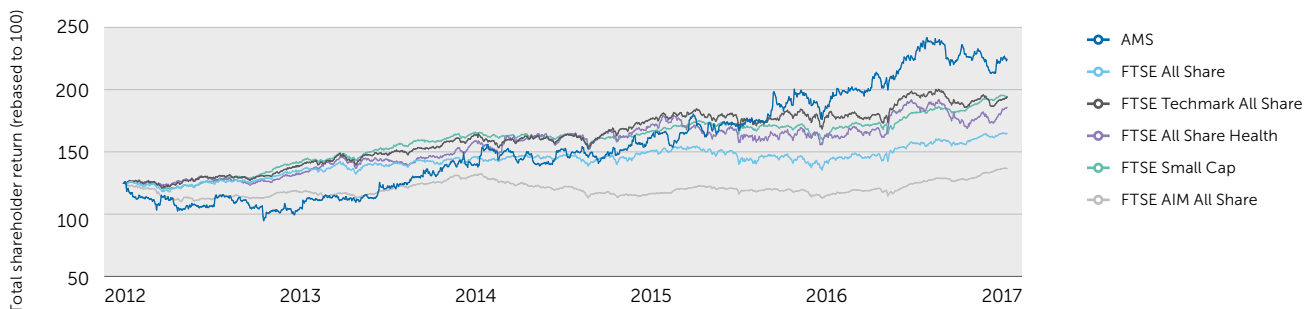
The opening share price for 2016 was 181.25p and the closing price on the last trading day of the year, was 221.75p. The range during the year was 234p (high) and 157.65p (low). (Source: daily official list of the London Stock Exchange.)

### Five-year Share Performance

For the five-year period ending 28 February 2017 the Advanced Medical Solutions Group plc share price has outperformed the FTSE All-Share Index by 101%, FTSE Techmark All-Share Index by 62%, FTSE All-Share Health Care Index by 80%, the FTSE Small Cap Index by 60%, and FTSE AIM All-Share Index by 121%.



For the five-year period ending 28 February 2017 the Advanced Medical Solutions Group plc Total Shareholder Return (TSR), defined as share price growth plus reinvested dividends, has outperformed the FTSE All-Share Index by 82%, FTSE Techmark All-Share Index by 41%, FTSE All-Share Health Care Index by 53%, the FTSE Small Cap Index by 42%, and FTSE AIM All-Share Index by 121%.



Mary Tavener

Company Secretary

28 April 2017

## Directors' Report

### For the year ended 31 December 2016

The Directors present their report, incorporating the Chairman's Statement, the Strategic Report, the Chief Executive's Statement, the Financial Review, and the audited Financial Statements for the year ended 31 December 2016.

### Strategic Report

The Strategic Report can be found on pages 4 to 41. This report includes a balanced and comprehensive analysis of the development and performance of the business of the Group and a description of the main trends and factors likely to affect the future development, performance or position of the business at the end of the year, using key performance indicators where appropriate.

### Principal Risks and Uncertainties

A description of the Group's principal risks and uncertainties can be found on pages 38 to 41, which forms part of this Strategic Report.

### Research and Development

The Group attaches a high priority to research and development aimed at developing new products and updating existing products. The Group has expensed to the Income Statement in the year ended 31 December 2016 £2,276,000 (2015: £1,817,000) on research and development. In accordance with International Accounting Standards a further £259,000 (2015: £373,000) has been capitalised. Following a review of development, £125,000 (2015: £nil) impairments were made in 2016.

### Dividends

The Group made a profit before tax for the year to 31 December 2016 of £19.1 million (2015: £17.0 million). The Directors are recommending payment of a final dividend of 0.62p per share. The final dividend will, subject to shareholders' approval, be paid on 16 June 2017 to shareholders on the register at the close of business on 26 May 2017. This will make a total dividend of 0.92p for the full year (2015: 0.80p).

### Post-Balance Sheet Events

There have been no adjusting or non-adjusting post-balance sheet events.

### Key Performance Indicators

The Directors have monitored the performance of the Group with particular reference to the relevant key performance indicators:

- Revenue growth (%)<sup>1</sup> at constant currency
- Adjusted operating margin (%)<sup>1</sup>
- Customer service (OTIF)<sup>2</sup>
- Adjusted<sup>3</sup> diluted Earnings per Share growth (%)

The Group monitors progress on a regular basis. Performance against the key performance indicators can be found on page 33.

### Capital Structure

The Group is debt free. A five-year, £30 million, multi-currency, revolving, credit facility was agreed in December 2014 with an accordion option under which AMS can request up to an additional £20 million on the same terms. The new facility is provided jointly by the Group's existing bank HSBC, as well as The Royal Bank of Scotland PLC and replaced the previous £4 million facility. It is unsecured on the assets of the Group and is currently undrawn.

### Going Concern

After making enquiries and on the basis outlined in the Corporate Governance Report on pages 46 to 50, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the accounts.

### Share Listing

The Company's Ordinary Shares are admitted to and traded on the Alternative Investment Market of the London Stock Exchange (AIM), a market operated by the London Stock Exchange. Further information regarding the Company's share capital, including movements during the year, are set out in Note 27 to the Financial Statements.

<sup>1</sup> Includes twelve months contribution from RESORBA® acquisition in 2012

<sup>2</sup> OTIF – 'On time in full'

<sup>3</sup> Before exceptional items and amortisation of acquired intangible assets

## Directors' Report continued

### For the year ended 31 December 2016

#### Share Capital and Issue of Ordinary Shares

At 7 April 2017, the Group's issued share capital comprised:

	Number	£000	% of Issued Share Capital
Ordinary Shares of 5p each	210,524,191	10,526	100%

The issued share capital of the Company is set out in Note 27 to the financial statements on page 96.

#### Substantial Shareholdings

As at 7 April 2017 the Company had been notified of, in accordance with the Disclosure and Transparency Rules, or was otherwise aware of, the following substantial interests of 3% or more in the Ordinary Share capital of the Company.

	7 April 17	% of Issued Share Capital
Octopus Investments Limited	18,700,969	8.88
AXA SA	16,839,237	8.00
BlackRock Inc	16,692,089	7.93
Hargreave Hale Ltd Stockbrokers	13,270,056	6.30
Investec Group	11,491,169	5.46
Schroders	9,642,800	4.58
Aviva plc	9,242,575	4.39
Charles Stanley Group	7,816,840	3.71

#### Directors

The names of the current Directors together with brief biographies are shown on pages 42 and 43.

The Directors who were in office during the year ended 31 December 2016, the terms of the Directors' service contracts and details of the Directors' interests in the shares of the Company, together with details of share options granted and any other awards made to the Directors, are disclosed in the Remuneration Report commencing on page 55.

Directors are re-appointed by ordinary resolution at the Annual General Meeting of shareholders. The Board can appoint a Director during the year but that Director must be elected by an ordinary resolution at the next Annual General Meeting. Directors are subject to re-election at intervals of no more than three years. At the forthcoming Annual General Meeting, Peter Allen, Steve Bellamy and Peter Steinmann have indicated their willingness to be re-elected and will retire by rotation. The Directors continue to contribute effectively and demonstrate commitment to their roles. Details of the notice period in their service agreements are disclosed in the Remuneration Report on page 61.

#### Directors and their Interests

The Directors of the Company at 31 December 2016 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary Shares of 5p each 31 December 2016				Ordinary Shares of 5p each 31 December 2015			
	Shares	DSBs	LTIPs	Deferred Bonus <sup>2</sup>	Shares	DSBs	LTIPs	Deferred Bonus <sup>1</sup>
Chris Meredith	<b>1,190,322</b>	<b>28,995</b>	<b>968,436</b>	<b>82,218</b>	1,187,891	25,116	938,439	49,580
Mary Tavener	<b>1,828,129</b>	<b>16,516</b>	<b>591,199</b>	<b>57,870</b>	1,825,698	12,637	568,155	36,538
Steve Bellamy	<b>100,000</b>	—	—	—	100,000	—	—	—
Peter Allen	<b>50,000</b>	—	—	—	50,000	—	—	—
Penny Freer	<b>13,888</b>	—	—	—	13,888	—	—	—

<sup>1</sup> Deferred Bonus shares are in respect of the bonus earned relating to the 2013 and 2014 financial years.

<sup>2</sup> Deferred Bonus shares are in respect of the bonus earned relating to the 2013, 2014 and 2015 financial years.

Further details of the Directors' remuneration and benefits are included in the Remuneration Report on pages 55 to 64.

The Board has agreed procedures for considering and, where appropriate, authorising Directors' conflicts or potential conflicts of interest. Only independent Directors i.e. those who have no interest in the matter under consideration are able to take the relevant decision. In taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. Directors will be able to impose limits or conditions when giving authorisation if they believe it is appropriate. The Board will report annually on the Company's procedures for ensuring that the Board's power of authorisation in respect of conflicts of interest operated effectively and that procedures have been followed. None of the Directors had any interest during or at the end of the year in any contract relating to the business of the Company or its subsidiaries.

## Directors and Officers' Liability Insurance

Insurance cover is in force in respect of the personal liabilities which may be incurred by Directors and Officers of the Company in the course of their service with the Group, as permitted by the Companies Act 2006. No cover is provided in respect of any fraudulent or dishonest act.

## Employees

The Group depends on the skills and engagement of its employees in order to achieve its objectives. Staff at all levels are encouraged to make the fullest possible contribution to the Group's success. The Group is an equal opportunities employer. It is committed to eliminating all forms of discrimination and to giving fair and equal treatment to all employees and job applicants in terms of recruitment, pay conditions, promotions, training and all employment matters regardless of age, disability, race, sex, sexual orientation, marriage or civil partnership status, pregnancy, maternity and paternity, gender reassignment, religion or belief. An Equality Policy is in force which aims to ensure that all employees are selected, trained, compensated, promoted and transferred solely on the strength of their ability, skills, qualifications and merit. The aim is to encourage a culture in which all employees have the opportunity to develop as fully as possible in accordance with their individual abilities and the needs of the Group. The Group also believes that all employees have a right to work in an environment free from harassment and bullying, and there is an emphasis upon providing a safe and healthy working environment.

The Group ensures that every consideration is given to applications for employment from disabled persons. Should an employee become disabled, every effort would be made to retrain the employee if required and offer suitable alternative employment within the Group.

The Group's policy is to consult and discuss with employees, through meetings, both formal and informal, those matters likely to affect employees' interests. The Employees' Consultative Committee in the UK, which comprises representatives of employees and management, and the Work's Council in Germany meet regularly to discuss business issues and areas of concern.

Management also communicates with staff through regular team briefs. Details of policies, procedures and other information of interest are regularly updated and are easily accessed by all employees on the Group's intranet page. The Group undertakes an annual Employee Opinion Survey and takes into account comments and feedback received when updating and formulating policies and procedures.

The Group's aim is to recruit and retain sufficient skilled and motivated employees to meet the needs of the business. The Group operates to the internationally recognised medical device standard ISO 13485. Staff work within a defined quality system, and have Personal Development Plans that identify their training requirements to help them progress their careers and development. Employees are encouraged to become involved in the financial performance of the Group through participation in the Group's share option plans and are incentivised directly through the Company's bonus scheme, performance reviews and training and development opportunities.

## Employee Share Schemes

Employees, except for participants in the Long-Term Incentive Plan (2014 LTIP), may be eligible after a period of service to be granted options over shares in the Company under the Company Share Option Plan or Executive Share Option Scheme. The Group received HMRC approval in 2010 to adopt a Company Share Option Plan (CSOP). Under the CSOP, employees are allowed to receive up to £30,000 of options in a tax-efficient manner. Options granted under these schemes are not offered at a discount. Further details are included in the Remuneration Report on pages 55 to 64.

The Company also operates a Deferred Share Bonus Scheme (DSB) in which employees are invited to participate. The DSB encourages employee share ownership which helps to align the employees' interests with those of the shareholders. The details on the DSB Scheme are provided in the Remuneration Report on page 58. The original DSB was set up in 2006 and having reached the end of its ten-year life a new DSB scheme was introduced on the same terms as the existing scheme following shareholder approval at the 2015 Annual General Meeting.

The Company no longer satisfies the requirements for granting tax-efficient options under its EMI scheme. Options already granted under this scheme will be allowed to vest in accordance with the rules of the scheme.

1,452,000 Ordinary Shares (2015: 1,170,000) were issued during the year to employees exercising their share options and options over other share incentive schemes. Details are given in Note 29 to the Group Financial Statements.



## Directors' Report continued

### For the year ended 31 December 2016

#### Health and Safety

The Group is committed to high standards in health, safety and environmental performance. It is the Group's policy to abide by, and where appropriate exceed, all laws, directives and regulations pertinent to its field of operations and to act in a manner so as to minimise the effects of its operations on the environment. The Group provides safe places and systems of work, safe plant and machinery, safe handling of materials and ensures appropriate information, instruction and training is given. Employees are encouraged to identify 'near misses' to ensure preventative actions are taken to avoid any unsafe work practices and a common All Incident Rate (AIR) reporting metric is used across the Group. Emphasis is placed on all employees having a responsibility to maintain a safe working environment. Health and Safety Committees at all sites assist with advice on safe working practices and ensure any corrective action is taken where necessary. Health and Safety reports are regularly received from Group sites and are reviewed by the Board. Regular audits are undertaken to evaluate compliance with Group policy. Health and Safety is a key component of the Group's Corporate Social Responsibility Policy.

#### Environment

Where possible, the Group aims to reduce its impact on the environment. The facility at Winsford has been built with a high level of thermal insulation to reduce the Group's carbon footprint. It incorporates a solar wall, a renewable energy source that captures the sun's warmth and supplements the building's heating system. Lighting is controlled by movement sensors to avoid wastage and the heating system is fully programmable. Further details are available in the Corporate Social Responsibility Report on pages 34 to 37.

#### Corporate Social Responsibility

AMS is committed to ensuring that the business operates in a responsible way across these key areas:

- Employees
- Ethical Standards
- Health, Safety and Environment
- Customer and Community

The Group has implemented a Corporate Social Responsibility Policy.

#### Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 'Reduced Disclosure Framework'). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company Financial Statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

## Responsibility Statement

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

## Auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as Auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

## Proposed resolutions for the Annual General Meeting

Details of the business to be conducted at the Annual General Meeting to be held on 7 June 2017 are contained in the Notice of the Annual General Meeting on pages 109 to 111. In the opinion of the Directors, the passing of these resolutions is in the best interest of the shareholders. Details of the Special Business to be conducted are outlined below.

## Special Business

The effect of Resolution 8, to be proposed at the meeting would be to allow the Company to allot shares conferred by S551 of the Companies Act 2006.

The effect of Resolution 9, to be proposed at the meeting would be to disapply the statutory pre-emption rights conferred by S570 of the Companies Act 2006.

The effect of Resolution 10, to be proposed at the meeting would be to allow the Company to purchase its own shares conferred by S701 of the Companies Act 2006.

## Annual General Meeting

The Annual General Meeting will be held at 11.00 am on 7 June 2017 at the offices of Investec Bank plc, 2 Gresham Street, London, EC2V 7QP. Details of the Notice of the Annual General Meeting are given on pages 109 to 111. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the executive management after the meeting.

On behalf of the Board

**Mary Tavener**

Company Secretary

28 April 2017

## Independent Auditor's Report to the members of Advanced Medical Solutions Group plc

We have audited the Financial Statements of Advanced Medical Solutions Group plc for the year ended 31 December 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related Notes 1 to 31, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related Notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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

### Respective Responsibilities of Directors and Auditor

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

### Scope of the Audit of the Financial Statements

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

### Opinion on Financial Statements

In our opinion:

- The Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- The Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

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

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

### Matters on which we are required to report by exception

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

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

### Timothy Edge BSc FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor  
Manchester, United Kingdom

28 April 2017

## Consolidated Income Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016			Year ended
		Before exceptional items £'000	Exceptional items (note 6) £'000	Total £'000	31 December 2015 Total £'000
<b>Revenue</b>	4	<b>82,621</b>	–	<b>82,621</b>	68,596
Cost of sales		<b>(35,194)</b>	–	<b>(35,194)</b>	(28,688)
<b>Gross profit</b>		<b>47,427</b>	–	<b>47,427</b>	39,908
Distribution costs		<b>(1,047)</b>	–	<b>(1,047)</b>	(951)
Administration costs		<b>(27,535)</b>	<b>(361)</b>	<b>(27,896)</b>	(22,505)
Other income		<b>621</b>	–	<b>621</b>	589
<b>Profit from operations</b>	4, 5	<b>19,466</b>	<b>(361)</b>	<b>19,105</b>	17,041
Finance income	11	<b>108</b>	–	<b>108</b>	73
Finance costs	12	<b>(111)</b>	–	<b>(111)</b>	(118)
<b>Profit before taxation</b>		<b>19,463</b>	<b>(361)</b>	<b>19,102</b>	16,996
Income tax	13	<b>(3,410)</b>	–	<b>(3,410)</b>	(2,877)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>16,053</b>	<b>(361)</b>	<b>15,692</b>	14,119
<b>Earnings per share</b>					
Basic	15	<b>7.65p</b>	<b>(0.17p)</b>	<b>7.48p</b>	6.78p
Diluted	15	<b>7.55p</b>	<b>(0.17p)</b>	<b>7.38p</b>	6.68p
Adjusted diluted	15	<b>7.66p</b>	<b>(0.17p)</b>	<b>7.49p</b>	6.86p

The above results relate to continuing operations.

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit for the year	<b>15,692</b>	14,119
<i>Items that will potentially be reclassified subsequently to profit and loss:</i>		
Exchange differences on translation of foreign operations	<b>8,851</b>	(3,348)
Loss arising on cash flow hedges	<b>(3,009)</b>	(3)
Other comprehensive income/(expense) for the year	<b>5,842</b>	(3,351)
Total comprehensive income for the year attributable to equity holders of the parent	<b>21,534</b>	10,768

## Consolidated Statement of Financial Position

At 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Acquired intellectual property rights	16	9,468	8,359
Software intangibles	16	2,500	2,009
Development costs	16	1,645	1,803
Goodwill	19	40,337	34,579
Property, plant and equipment	17	16,177	15,795
Deferred tax assets	18	–	135
Trade and other receivables		10	13
		<b>70,137</b>	62,693
<b>Current assets</b>			
Inventories	20	11,440	8,843
Trade and other receivables	21	11,872	10,817
Current tax assets		432	9
Cash and cash equivalents	22	51,125	34,201
		<b>74,869</b>	53,870
<b>Total assets</b>		<b>145,006</b>	116,563
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	23	12,901	9,139
Current tax liabilities		2,049	806
Other taxes payable		85	234
Obligations under finance leases		–	1
		<b>15,035</b>	10,180
<b>Non-current liabilities</b>			
Trade and other payables	23	1,291	415
Deferred tax liabilities	18	3,152	2,311
		<b>4,443</b>	2,726
<b>Total liabilities</b>		<b>19,478</b>	12,906
<b>Net assets</b>		<b>125,528</b>	103,657
<b>Equity</b>			
Share capital	27	10,524	10,451
Share premium		34,005	33,196
Share-based payments reserve		3,469	2,253
Investment in own shares	28	(152)	(152)
Share-based payments deferred tax reserve		459	437
Other reserve	28	1,531	1,531
Hedging reserve	28	(3,534)	(525)
Translation reserve	28	636	(8,215)
Retained earnings		78,590	64,681
<b>Equity attributable to equity holders of the parent</b>		<b>125,528</b>	103,657

The Financial Statements of Advanced Medical Solutions Group plc (registration number 2867684) on pages 71 to 102 were approved by the Board of Directors and authorised for issue on 28th April 2017 and were signed on its behalf by:

**Chris Meredith**

Chief Executive Officer

28 April 2017



## Consolidated Statement of Changes in Equity

### Attributable to equity holders of the Group

	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	10,393	32,742	1,563	(148)	278	1,531	(522)	(4,867)	52,083	93,053
Consolidated profit for the year to 31 December 2015	-	-	-	-	-	-	-	-	14,119	14,119
Other comprehensive expense	-	-	-	-	-	-	(3)	(3,348)	-	(3,351)
Total comprehensive income	-	-	-	-	-	-	(3)	(3,348)	14,119	10,768
Share-based payments	-	-	709	-	159	-	-	-	-	868
Share options exercised	58	454	(19)	-	-	-	-	-	-	493
Shares purchased by EBT	-	-	-	(262)	-	-	-	-	-	(262)
Shares sold by EBT	-	-	-	258	-	-	-	-	-	258
Dividends paid	-	-	-	-	-	-	-	-	(1,521)	(1,521)
At 31 December 2015	10,451	33,196	2,253	(152)	437	1,531	(525)	(8,215)	64,681	103,657
Consolidated profit for the year to 31 December 2016	-	-	-	-	-	-	-	-	15,692	15,692
Other comprehensive expense	-	-	-	-	-	-	(3,009)	8,851	-	5,842
Total comprehensive income	-	-	-	-	-	-	(3,009)	8,851	15,692	21,534
Share-based payments	-	-	1,230	-	22	-	-	-	-	1,252
Share options exercised	73	809	(14)	-	-	-	-	-	-	868
Shares purchased by EBT	-	-	-	(449)	-	-	-	-	-	(449)
Shares sold by EBT	-	-	-	449	-	-	-	-	-	449
Dividends paid	-	-	-	-	-	-	-	-	(1,783)	(1,783)
<b>At 31 December 2016</b>	<b>10,524</b>	<b>34,005</b>	<b>3,469</b>	<b>(152)</b>	<b>459</b>	<b>1,531</b>	<b>(3,534)</b>	<b>636</b>	<b>78,590</b>	<b>125,528</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Cash flows from operating activities</b>		
Profit from operations	19,105	17,041
Adjustments for:		
Depreciation	1,898	1,745
Amortisation – intellectual property rights	242	367
– software intangibles	329	289
– development costs	441	410
Impairment of development costs	125	–
Increase in inventories	(2,005)	(1,501)
(Increase)/decrease in trade and other receivables	(674)	2,148
Increase in trade and other payables	1,199	1,336
Share-based payments expense	1,230	709
Taxation	(2,065)	(1,253)
<b>Net cash inflow from operating activities</b>	<b>19,825</b>	<b>21,291</b>
<b>Cash flows from investing activities</b>		
Purchase of software	(795)	(472)
Capitalised research and development	(259)	(373)
Purchases of property, plant and equipment	(1,523)	(1,907)
Disposal of property, plant and equipment	41	77
Interest received	109	73
<b>Net cash used in investing activities</b>	<b>(2,427)</b>	<b>(2,602)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(1,783)	(1,521)
Finance lease	(1)	(2)
Issue of equity shares	868	498
Shares purchased by EBT	(449)	(262)
Shares sold by EBT	449	258
Interest paid	(111)	(118)
<b>Net cash used in financing activities</b>	<b>(1,027)</b>	<b>(1,147)</b>
<b>Net increase in cash and cash equivalents</b>	<b>16,371</b>	<b>17,542</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>34,201</b>	<b>17,280</b>
<b>Effect of foreign exchange rate changes</b>	<b>553</b>	<b>(621)</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>51,125</b>	<b>34,201</b>

# Notes Forming Part of the Consolidated Financial Statements

## 1 Reporting Entity

Advanced Medical Solutions Group plc ('the Company') is a public limited company incorporated and domiciled in England and Wales (registration number 2867684). The Company's registered address is Premier Park, 33 Road One, Winsford Industrial Estate, Cheshire, CW7 3RT.

The Company's Ordinary Shares are traded on the AIM market of the London Stock Exchange plc. The Consolidated Financial Statements of the Company for the 12 months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in the design, development and manufacture of novel high performance polymers (both natural and synthetic) for use in advanced woundcare dressings, and distribution of medical adhesives, for closing and sealing tissue, and sutures and haemostats for sale into the global medical device market.

## 2 Basis of Preparation

The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU.

The Financial Statements have been prepared on the historical cost basis of accounting except as disclosed in the accounting policies set out below.

The individual Financial Statements for each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group Company are expressed in Pounds Sterling, which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

In carrying out their duties in respect of going concern, the Directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

With regards to the Group's financial position, it had cash and cash equivalents at the year end of £51.1 million. The Group also has in place a five year, unsecured, multi-currency, revolving credit facility for £30 million which was undrawn during 2016.

While the current economic environment is uncertain, the Group operates in markets whose demographics are favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, market growth is predicted. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

After taking the above into consideration, the Directors have reached a conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

In the current year the Group has applied a number of amendments to IFRSs issued by the IASB. Their adoption has not had a material impact on the disclosures or on the amounts reported in the Annual Financial Statements. The following amendments were applied:

- Amendments to IAS 1, Presentation of Financial Statements: Disclosure Initiative.
- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation.
- Annual Improvements 2012-2014 Cycle, specifically amendments to (i) IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, (ii) IFRS 7, Financial Instruments: Disclosures, and (iii) IAS 19, Employee Benefits.

## 3 Accounting Policies

### **Critical judgements in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, which are described below, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations, which are dealt with below) and have been identified as being particularly complex or involve subjective assessments.

### **Share based payments**

The charge to the Income Statement in relation to options and incentive plans is based on the Black-Scholes Merton or the Monte Carlo Option Pricing Model valuation technique. These techniques require a number of assumptions to be made such as those in relation to share price volatility, movement in interest rates, dividend yields and staff behavioural patterns. Details of the accounting policies applied in respect of share based payments are set out on page 80.

### **Tax**

A deferred tax asset is recognised when it is judged probable that the Group will generate taxable profits which can be offset against tax losses. The measurement of the tax benefit recognised in the Consolidated Financial Statements is based upon the largest amount of tax benefit that, in management's judgement, is likely to be realised. Details of the accounting policies applied in respect of deferred tax are set out on page 77.

## Notes Forming Part of the Consolidated Financial Statements continued

### 3 Accounting Policies continued

#### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Balance Sheet date, that 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.

#### **Impairment of goodwill, intangible assets and fixed assets**

Determining whether goodwill, intangible assets and fixed assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation 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 calculate present value. The carrying amount of goodwill and intangible assets at the balance sheet date was £40.3m and £9.5m respectively (2015: £34.6m and £8.4m). Details of the accounting policies applied in respect of impairment are set out on page 78.

#### **Basis of consolidation**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to retain benefits from its activities. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements on the basis of acquisition accounting, from the date that control commences until the date that control ceases.

Intercompany transactions and balances between Group entities are eliminated upon consolidation.

#### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, the equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the issue of debt or equity. Acquisition related expenses are accounted for as expenses in the period in which the costs are incurred and the services rendered, with the exception of directly attributable costs incurred as a result of raising equity, which are off-set against share premium, and raising debt, which are capitalised and amortised over the term of the debt. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current 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*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

#### **Revenue recognition**

Revenue represents the fair value of sales of the Group's products to external customers at amounts excluding value added tax, and is recognised when the products have been delivered and title has passed. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from royalty income receivable under licence agreements from external customers at amounts excluding value added tax is recognised as the products under licence are sold and the revenue can be reliably measured.

#### **Other income**

This represents non-refundable up-front licence payments received for the grant of rights for the development and marketing of products, and other sundry income. The income is recognised in the Income Statement, over the life of each development project, in proportion to the stage of completion of each project.

#### **Finance income**

Finance income relates to interest earned on cash, cash equivalents and investments. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

#### **Exceptional items**

Exceptional items are those items that are unusual because of their size, nature or incidence, or that the Directors consider should be disclosed separately to enable a full understanding of the Group's results. This includes non-recurring transaction costs (see Note 6). Exceptional items have been presented separately on the face of the Income Statement. The Directors consider that this presentation gives a fairer presentation of the results of the Group.

**Finance costs**

Finance costs relate to finance payments associated with financial liabilities. They are recognised in the Income Statement as they accrue using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Foreign currencies**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the Balance Sheet date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates at the dates of the transactions. Exchange differences arising on consolidation are recognised in equity.

**Hedging**

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item. Note 24 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the Consolidated Statement of Changes in Equity.

**Taxation**

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the Income Statement because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another period. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is accounted for on a basis of temporary differences, except to the extent where it arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the Income Statement, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax laws enacted or substantively enacted by the reporting date.

**Intangible assets****Acquired intellectual property rights**

Intellectual property rights that are acquired in a business combination are initially recognised at their fair value. Intellectual property rights purchased outright are initially recognised at cost. Intellectual property rights are capitalised and amortised over their estimated useful economic lives, usually not exceeding 18 years. In determining the useful economic life each asset is reviewed separately and consideration given to the period over which the Group expects to derive economic benefit from the asset.



## Notes Forming Part of the Consolidated Financial Statements

### continued

#### 3 Accounting Policies continued

##### Development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the Income Statement as an expense in the period in which it is incurred.

Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised once it can be demonstrated that the product or process is clearly identifiable, technically and commercially feasible, will generate future economic benefits, that the development costs of the asset can be measured reliably and the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials and direct labour less accumulated amortisation.

Where development expenditure results in new or substantially improved products or processes and it is probable that recovery will take place, it is capitalised and amortised on a straight-line basis over the product's useful life starting from the date on which serial production commences, which is between one and ten years. Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, which is between three and 20 years.

##### Software intangibles

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Amortisation is provided on a straight-line basis over its economic useful life, which is in the range of three to ten years.

##### Property, plant and equipment

Land and buildings and plant and equipment held for use in the production of goods and services or for administrative purposes are carried in the Balance Sheet at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group elected to use the fair value as the deemed cost in respect of land and buildings at the date of transition to IFRS. Fair value was calculated by reference to their existing use at the date of transition.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment, over the expected useful life of the asset from the date that the asset is brought into use. It is calculated at the following rates:

→ Freehold property and improvements	— 4% per annum on cost
→ Leasehold improvements	— over the length of the lease
→ Plant and machinery	— 6.7% to 33.3% per annum on cost
→ Fixtures and fittings	— 33.3% per annum on cost
→ Motor vehicles	— 25% per annum on cost

Property, plant and equipment in the course of construction for production are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment assets, commences when the assets are ready for their intended use.

No depreciation is provided on freehold land.

##### Impairment of tangible and intangible assets excluding goodwill

The carrying amount of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

##### Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows. As the Group's receivables are of short duration they are not discounted.

##### Reversal of impairment

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

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

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

### **Inventory**

Inventory is valued at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition and an attributable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

The Group makes provision for inventory deemed to be irrecoverable or where the net realisable value is lower than cost. This provision is established on a stock keeping unit (SKU) basis by reference to the age of the stock, the forward order book, management's experience and its assessment of the present value of estimated future cash flow.

### **Financial Instruments**

#### **Classification of financial instruments**

Financial instruments are classified as financial assets, financial liabilities or equity instruments.

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions

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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

#### **Recognition and valuation of financial assets**

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and cash deposits and amounts under short-term guarantees usually three months or less that are held for the purpose of meeting short-term cash commitments and are subject to insignificant risk in change in value and which are readily convertible to a known amount of cash. Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment.

##### **Investments**

Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment. The Group invests funds which are surplus to requirements in fixed rate deposits operating within parameters for credit ratings and credit limits for individual institutions that are approved and monitored by the Board.

Under IAS 39 'Financial instruments; recognition and measurement', such investments are classified as loans and receivables and are recognised at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method.

##### **Trade and other receivables**

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. An impairment is made when it is likely that the balance will not be recovered in full. The recoverable amount is calculated as the present value of estimated future cash flows. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

#### **Recognition and valuation of equity instruments**

Equity instruments are stated at par value. Any premium on issue is taken to the share premium account.

#### **Recognition and valuation of financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

##### **Trade payables**

Trade payables are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

##### **Other loans**

Other loans are initially recognised at fair value and are subsequently recognised at amortised cost.

#### **Financial liabilities at Fair Value Through Profit or Loss ('FVTPL')**

A derivative that is not designated and effective as a hedging instrument is classified as held for trading. Financial liabilities are classified as at FVTPL where the financial liabilities are held for trading.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in Note 24.

## Notes Forming Part of the Consolidated Financial Statements continued

### 3 Accounting Policies continued

#### Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note 24 to the Financial Statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each Balance Sheet date. The resulting gain or loss is recognised in profit or loss (administrative costs) immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group currently designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Derivatives with remaining maturity of less than 12 months are presented as current assets or current liabilities.

#### Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held as finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments during the lease term at the inception of the lease. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Income Statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Assets leased under operating leases are not recorded on the Balance Sheet. Rental payments are charged directly to the Income Statement. Lease incentives, primarily up-front cash payments or rent-free periods, are capitalised and spread over the period of the lease term on a straight line basis unless another systematic basis is more representative of the time pattern of the users' benefit. Payments made to acquire operating leases are treated as prepaid lease expenses and amortised over the life of the lease.

#### Pensions

The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the Income Statement represents the contributions payable to the scheme in respect of the accounting period.

#### Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based payments'. IFRS has been applied to all options granted after 7 November 2002 that were unvested as of 1 January 2006.

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value as determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of options that will eventually vest.

Fair value is measured by use of a Black-Scholes Merton or Monte Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

#### Capital management

For the year ended 31 December 2016, the Group had net funds with no borrowings. Capital is managed by maximising retained profits. Working capital is managed in order to generate maximum conversion of these profits into cash and cash equivalents thereby maintaining capital.

Capital includes share capital, share premium, investment in own shares, share-based payments reserve, share-based payments deferred tax reserve, other reserve, translation reserve and retained earnings reserve. There are no externally imposed capital requirements on the Group.

#### Employee Benefit Trusts

The Group operates an Employee Benefit Trust (EBT): 'Advanced Medical Solutions Group plc UK Employee Benefit Trust'.

The Group has de facto control of the assets, liabilities and shares held by the Trust and bear their benefits and risks. The Group records assets and liabilities of the Trust as its own.

In compliance with IAS 32 'Financial Instruments: Presentation Group', shares held by the EBT are included in the Consolidated Balance Sheet as a reduction in equity. Gains and losses on Group shares are recognised directly in reserves.

**IFRS not yet effective and not adopted early**

New accounting standards not yet applied

At the date of authorisation of the Annual Financial Statements, the following new and revised IFRSs that are potentially relevant to the Group, and which have not been applied in the Annual Financial Statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 2, Share-based Payment - effective for accounting periods beginning on or after 1 January 2018.
- IFRS 16, Leases - effective for accounting periods beginning on or after 1 January 2019.
- IAS 7, Statement of Cash Flows - effective for accounting periods beginning on or after 1 January 2017.
- IAS 12, Income Taxes - effective for accounting periods beginning on or after 1 January 2017.
- IFRS 9, Financial Instruments: Classification and Measurement - effective for accounting periods beginning on or after 1 January 2018.
- IFRS 15, Revenue from Contracts with Customers - effective for accounting periods beginning on or after 1 January 2018.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the Financial Statements of the Group in future periods, except as follows:

- IFRS 9 is effective for annual periods beginning 1 January 2018 and will replace IAS 39 Financial Instruments. This standard covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities, together with the new hedge accounting model. The Group does not expect the transition to the standard to have a material impact on the Financial Statements.
- IFRS 15 is effective for annual periods beginning 1 January 2018 and will replace IAS 11 Construction Contracts and IAS 18 Revenue. This standard requires the separation of performance obligations within contracts with customers, and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. Retrospective application in the comparative year ending 31 December 2017 is optional, however the Group does not expect to undertake this option. An initial assessment has been performed and it is not anticipated that transition to IFRS 15 will have a material impact on the Group.
- IFRS 16 is effective for annual periods beginning 1 January 2019, subject to EU endorsement, and will replace IAS 17 Leases. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. As at 31 December 2016, the Group holds a number of operating leases, which currently, under IAS 17, are expensed on a straight line basis over the lease term. Retrospective application in the comparative year ending 31 December 2018 is optional, however the Group does not expect to undertake this option. An initial assessment has been performed and it is anticipated that transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the Consolidated Balance Sheet. The Group will continue to monitor the impact until the transition date, providing further quantitative and qualitative measures as progress is made on implementation planning.

Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

## 4 Segment Information

As referred to in the Chief Executive's Statement, the Group is organised into four Business Units: Branded Direct, Branded Distributed, OEM (Original Equipment Manufacturer) and Bulk Materials. These Business Units are the basis on which the Group reports its segment information.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments, and related revenue, corporate assets, head office expenses, income tax assets and the Group's external borrowings. These are the measures reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

**Business segments**

The principal activities of the Business Units are as follows:

**Branded Direct**

Selling, marketing, and innovation of the Group's branded products sold directly by the Group's sales teams.

**Branded Distributed**

Distribution, marketing and innovation of the Group's brands sold by distributors in markets not serviced by the Group's sales team.

**OEM**

Selling, marketing and innovation of the Group's products supplied to partners under their brands.

**Bulk Materials**

Selling, marketing and innovation of bulk materials to medical device partners and converters.

## Notes Forming Part of the Consolidated Financial Statements continued

### 4 Segment information continued

Segment information about these Business Units is presented below.

Year ended 31 December 2016	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Eliminations £'000	Consolidated £'000
<b>Revenue</b>						
External sales	24,553	20,753	32,070	5,245	–	82,621
Inter-segment sales	–	–	–	1,795	(1,795)	–
Total revenue	24,553	20,753	32,070	7,040	(1,795)	82,621
<b>Result</b>						
Segment result	4,976	6,337	6,881	1,796	–	19,990
Unallocated expenses						(885)
Profit from operations						19,105
Finance income						108
Finance costs						(111)
Profit before tax						19,102
Tax						(3,410)
Profit for the year						15,692

At 31 December 2016 Other Information	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000		Consolidated £'000
Capital additions:						
Software intangibles	463	133	194	5		795
Research and development	31	126	100	2		259
Property, plant and equipment	734	371	201	217		1,523
Depreciation and amortisation	(843)	(466)	(1,340)	(260)		(2,909)
<b>Balance sheet</b>						
<b>Assets</b>						
Segment assets	68,197	29,301	40,665	6,723		144,886
Unallocated assets						120
Consolidated total assets						145,006
<b>Liabilities</b>						
Segment liabilities	7,082	4,938	6,291	1,167		19,478
Consolidated total liabilities						19,478

Year ended 31 December 2015	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Eliminations £'000	Consolidated £'000
<b>Revenue</b>						
External sales	22,344	14,631	27,675	3,946	–	68,596
Inter-segment sales	–	–	–	826	(826)	–
Total revenue	22,344	14,631	27,675	4,772	(826)	68,596
<b>Result</b>						
Segment result	5,235	4,366	7,139	814	–	17,554
Unallocated expenses						(513)
Profit from operations						17,041
Finance income						73
Finance costs						(118)
Profit before tax						16,996
Tax						(2,877)
Profit for the year						14,119



31 December 2015 Other Information	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Consolidated £'000
Capital additions:					
Software intangibles	111	15	333	13	472
Research and development	102	67	200	4	373
Property, plant and equipment	730	332	663	182	1,907
Depreciation and amortisation	(855)	(431)	(1,309)	(217)	(2,812)
Balance sheet					
Assets					
Segment assets	57,264	20,913	32,874	5,347	116,398
Unallocated assets					165
Consolidated total assets					116,563
Liabilities					
Segment liabilities	5,353	2,888	3,930	735	12,906
Consolidated total liabilities					12,906

## Geographical Segments

The Group operates in the UK, Germany, the Netherlands, the Czech Republic, with sales offices in Russia and a sales presence in the US. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services, based upon location of the Group's customers:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
United Kingdom	17,457	16,657
Germany	18,345	13,371
Europe excluding United Kingdom and Germany	21,360	19,223
United States of America	23,505	17,766
Rest of the World	1,954	1,579
	<b>82,621</b>	68,596

The following table provides an analysis of the Group's total assets by geographical location.

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
United Kingdom	80,580	62,785
Germany	59,950	50,592
Europe excluding United Kingdom and Germany	3,962	3,060
United States of America	514	126
	<b>145,006</b>	116,563

## Notes Forming Part of the Consolidated Financial Statements continued

### 5 Profit from Operations

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit from operations is arrived at after charging:		
Depreciation of property, plant and equipment	1,898	1,754
Amortisation of:		
– acquired intellectual property rights	242	367
– software intangibles	329	289
– development costs	441	410
Operating lease rentals - plant and machinery	253	250
– land and buildings	917	896
Research and development costs expensed to the Income Statement	2,276	1,817
Cost of inventories recognised as expense	34,132	27,836
Staff costs	26,162	21,579
Net foreign exchange loss	1,271	391

### 6 Exceptional Items

During 2016, £361,000 of exceptional costs were incurred relating to an acquisition that was not progressed in the year (2015: Enil).

### 7 Auditor's Remuneration

Amounts payable to Deloitte LLP and their associates in respect of both audit and non-audit services:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	13	19
Fees payable to the Company's Auditor and their associates for other audit services to the Group – the audit of the Company's subsidiaries	71	67
<b>Total audit fees</b>	<b>84</b>	<b>86</b>
Audit related assurance services	13	13
Other services	4	–
Corporate finance services	114	55
<b>Total non audit fees</b>	<b>130</b>	<b>68</b>
	<b>214</b>	<b>154</b>

Fees payable to the Company's Auditor, Deloitte LLP and its associates, for non-audit services to the Company are not required to be disclosed in subsidiaries' accounts because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Governance section of the Annual Report which includes explanations of how the audit objectivity and independence is safeguarded when non-audit services are provided by the Auditor.

## 8 Employees

The average monthly number of employees of the Group during the year, including Executive Directors, was as follows:

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Production	303	274
Research and development	30	29
Sales and marketing	120	107
Administration	86	78
	<b>539</b>	488

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Staff costs for all employees, including Executive Directors, consists of:		
Wages and salaries	20,979	17,543
Social Security costs	2,965	2,523
Pension costs	988	804
Share-based payments (see Note 29)	1,230	709
	<b>26,162</b>	21,579

The 2015 comparator has been restated to include an additional amount of £1,079,000 previously omitted from the Note in the 2015 accounts.

## 9 Directors' Emoluments

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Remuneration for management services	967	988
Pension	52	66
Amounts paid to third parties	65	30
Share-based payments	442	207
	<b>1,526</b>	1,321

### Executive Directors

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Salaries and short-term employee benefits	845	835
Pension	52	66
Share-based payments	442	207
	<b>1,339</b>	1,108

### Highest paid Director

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Salaries and short-term employee benefits	496	497
Pension	26	26
Share-based payments	256	121
	<b>778</b>	644

Retirement benefits are accruing to the following number of Directors under money purchase schemes	2	2
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## Notes Forming Part of the Consolidated Financial Statements continued

### 10 Remuneration of Key Management Personnel

The key management of the Group comprises the Directors of the Group together with senior members of the management team. Their aggregate compensation is shown below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Salaries and short-term employee benefits	2,334	2,225
Pension	108	114
Share based payments	795	356
	<b>3,237</b>	2,695

### 11 Finance Income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Bank interest	108	73

### 12 Finance Costs

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Amortisation of facility fees	111	118
Total interest expense	111	118

### 13 Taxation

#### a) Analysis of charge for the year

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Current tax:		
Tax on ordinary activities - current year	3,180	1,743
Tax on ordinary activities - prior year	(358)	58
	<b>2,822</b>	1,801
Deferred tax:		
Tax on ordinary activities - current year	599	1,055
Effect of reduction in UK corporation tax rates	(11)	21
	<b>588</b>	1,076
Tax charge for the year	<b>3,410</b>	2,877

The Group has chosen to use a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit per the Income Statement. The Group operates in several jurisdictions, some of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the Financial Statements.

**b) Factors affecting tax charge for the year**

The tax assessed for the year is lower (2015: lower) than the weighted average Group tax rate of 22.11% (2015: 22.35%) as explained below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit before taxation	19,102	16,996
Weighted average group tax rate 22.11% (2015:22.35%)	4,224	3,798
Effects of:		
Expenses not deductible for tax purposes and other timing differences	50	43
Depreciation for period less than capital allowances	(31)	(1)
Utilisation and recognition of trading losses	(203)	(438)
Patent Box Relief	(242)	(269)
Research and development relief	(183)	(324)
Share-based payments	(47)	10
Adjustments in respect of prior year - current tax	(359)	58
Adjustments in respect of prior year and rate changes - deferred tax	201	-
Taxation	3,410	2,877

Legislation to reduce the main rate of UK corporation tax to 19% and 17% was passed by Parliament in September 2016 to take effect from 1 April 2017 and 1 April 2020. The reduction in the main rate to 17% had been substantively enacted at the Balance Sheet date and, therefore, the deferred tax assets and liabilities are calculated in these Financial Statements at this rate.

In addition to the amount charged to the Income Statement and other Comprehensive Income, the Group has recognised directly in equity:

- Excess tax deductions related to share-based payments on exercised options
- Changes in excess deferred tax deductions related to share-based payments, totalling £22,000 deficit: (2015: £159,000 deficit)

**14 Dividends**

Amounts recognised as distributions to equity holders in the period:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Final dividend for the year ended 31 December 2015 of 0.55p (2014: 0.48p) per Ordinary Share	1,150	935
Interim dividend for the year ended 31 December 2016 of 0.30p (2015: 0.25p) per Ordinary Share	633	586
	1,783	1,521
Proposed final dividend for the year ended 31 December 2016 of 0.62p (2015: 0.55p) per Ordinary Share	1,305	1,150
	1,305	1,150

The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these Financial Statements.

## Notes Forming Part of the Consolidated Financial Statements continued

### 15 Earnings per Share

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

Year ended 31 December	2016 £'000	2015 £'000
<b>Profit for the year attributable to equity holders of the parent</b>		
Pre exceptional items	<b>16,053</b>	14,119
Post exceptional items	<b>15,692</b>	14,119
<b>Number of shares</b>	<b>'000</b>	<b>'000</b>
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	<b>209,815</b>	208,376
Effect of dilutive potential Ordinary Shares: share options, deferred share bonus, LTIPs	<b>2,778</b>	2,902
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	<b>212,593</b>	211,278
	<b>£'000</b>	<b>£'000</b>
<b>Profit for the year attributable to equity holders of the parent</b>	<b>16,053</b>	14,119
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent		
Amortisation of acquired intangible assets	<b>242</b>	367
<b>Adjusted profit for the year attributable to equity holders of the parent</b>	<b>16,295</b>	14,486
<b>Earnings per share</b>	<b>pence</b>	<b>pence</b>
Basic – pre exceptional	<b>7.65</b>	6.78
Basic – post exceptional	<b>7.48</b>	6.78
Diluted – pre exceptional	<b>7.55</b>	6.68
Diluted – post exceptional	<b>7.38</b>	6.68
Adjusted basic (before exceptional items)	<b>7.77</b>	6.95
Adjusted diluted (before exceptional items)	<b>7.66</b>	6.86



## 16 Acquired Intellectual Property Rights, Software Intangibles and Development Costs

	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000	Total £'000
<b>2016</b>				
<b>Cost</b>				
At beginning of year	11,541	2,859	3,340	17,740
Additions	–	795	364	1,159
Exchange differences	1,356	70	31	1,457
<b>At end of year</b>	<b>12,897</b>	<b>3,724</b>	<b>3,735</b>	<b>20,356</b>
<b>Amortisation</b>				
At beginning of year	3,182	850	1,537	5,569
Charged in the year	242	329	441	1,012
Disposals / Impairment	–	–	125	125
Exchange differences	5	45	(13)	37
<b>At end of year</b>	<b>3,429</b>	<b>1,224</b>	<b>2,090</b>	<b>6,743</b>
<b>Net book value</b>				
<b>At 31 December 2016</b>	<b>9,468</b>	<b>2,500</b>	<b>1,645</b>	<b>13,613</b>
At 31 December 2015	8,359	2,009	1,803	12,171

Acquired intellectual property rights were initially recognised on the acquisition of MedLogic Global Limited representing patents and on the acquisition of RESORBA® representing brand names, know-how and customer listings and contracts.

Intangible assets are amortised on a straight-line basis and the amortisation is recognised within administration costs, the largest intangible asset being RESORBA® 'know-how' which is being amortised over ten years with five years remaining, with the exception of the RESORBA® brand name, which the Directors believe has an unlimited useful economic life and has a carrying value of £8,885,000. In reaching this assessment, the Directors have considered that the RESORBA® brand has existed for over 80 years and is widely recognised as a market leader in the surgical market.

	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000	Total £'000
<b>2015</b>				
<b>Cost</b>				
At beginning of year	12,089	2,402	2,994	17,485
Additions	–	468	357	825
Exchange differences	(548)	(11)	(11)	(570)
<b>At end of year</b>	<b>11,541</b>	<b>2,859</b>	<b>3,340</b>	<b>17,740</b>
<b>Amortisation</b>				
At beginning of year	2,851	567	1,144	4,562
Charged in the year	367	289	410	1,066
Exchange differences	(36)	(6)	(17)	(59)
<b>At end of year</b>	<b>3,182</b>	<b>850</b>	<b>1,537</b>	<b>5,569</b>
<b>Net book value</b>				
At 31 December 2015	8,359	2,009	1,803	12,171
At 31 December 2014	9,238	1,835	1,850	12,923

## Notes Forming Part of the Consolidated Financial Statements

### continued

#### 17 Property, Plant and Equipment

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
<b>2016</b>							
<b>Cost</b>							
At beginning of year	4,443	12	22,430	679	641	72	28,277
Additions	29	–	1,247	12	235	–	1,523
Transfer of assets into use	–	–	72	–	–	(72)	–
Disposals	(2)	–	(493)	(18)	(239)	–	(752)
Exchange adjustment	564	–	620	15	82	–	1,281
At end of year	5,034	12	23,876	688	719	–	30,329
<b>Depreciation</b>							
At beginning of year	451	10	11,566	340	115	–	12,482
Provided for the year	124	–	1,572	58	144	–	1,898
Disposals	–	–	(457)	(17)	(157)	–	(631)
Exchange adjustment	82	–	302	5	14	–	403
At end of Year	657	10	12,983	386	116	–	14,152
<b>Net book value</b>							
<b>At 31 December 2016</b>	<b>4,377</b>	<b>2</b>	<b>10,893</b>	<b>302</b>	<b>603</b>	<b>–</b>	<b>16,177</b>
At 31 December 2015	3,992	2	10,864	339	526	72	15,795

At 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £354,000 (2015: £783,000).

The net book value of plant and equipment includes £167,000 (2015: £188,000) of capitalised borrowing costs relating to the Winsford site.

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
<b>2015</b>							
<b>Cost</b>							
At beginning of year	4,657	12	20,578	647	619	591	27,104
Additions	26	–	1,604	35	170	72	1,907
Transfer of assets into use	–	–	591	–	–	(591)	–
Disposals	(33)	–	(186)	–	(118)	–	(337)
Exchange Adjustment	(207)	–	(157)	(3)	(30)	–	(397)
At end of year	4,443	12	22,430	679	641	72	28,277
<b>Depreciation</b>							
At beginning of year	360	10	10,379	281	71	–	11,101
Provided for the year	111	–	1,465	60	118	–	1,754
Disposals	–	–	(179)	–	(76)	–	(255)
Exchange Adjustment	(20)	–	(99)	(1)	2	–	(118)
At end of Year	451	10	11,566	340	115	–	12,482
<b>Net book value</b>							
At 31 December 2015	3,992	2	10,864	339	526	72	15,795
At 31 December 2014	4,297	2	10,199	366	548	591	16,003

## 18 Deferred Tax

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

	Share-based payment £'000	Tax losses £'000	Advanced capital allowances £'000	Intangible assets £'000	Research and Development Assets £'000	Total £'000
At 31 December 2014	407	1,669	(586)	(2,513)	(382)	(1,405)
Charge to income	(4)	(1,079)	(78)	56	29	(1,076)
Charge to equity	159	–	–	–	–	159
Exchange adjustment	–	–	–	146	–	146
At 31 December 2015	562	590	(664)	(2,311)	(353)	(2,176)
Charge to income	100	(590)	51	(199)	50	(588)
Charge to equity	22	–	–	–	–	22
Exchange adjustment	–	–	–	(410)	–	(410)
<b>At 31 December 2016</b>	<b>684</b>	<b>–</b>	<b>(613)</b>	<b>(2,920)</b>	<b>(303)</b>	<b>(3,152)</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £'000	2015 £'000
Deferred tax liabilities	(916)	(1,017)
Deferred tax assets	684	1,152
	(232)	135

At the balance sheet date, the Group has unused tax losses of £0.6 million (2015: £8.0 million) available for offset against future profits. No deferred tax asset has been recognised in respect of this loss (2015: £4.7 million) due to the unpredictability of future profit streams.

## 19 Goodwill

	2016 £'000	2015 £'000
<b>Cost</b>		
At 1 January	34,579	36,696
Exchange differences	5,758	(2,117)
At 31 December	40,337	34,579

Two cash-generating units (CGU) exist within the Branded Distributed segment whereby goodwill has been allocated. CGU1 has goodwill and indefinite useful life intangible assets of £29.7m and £6.8m (2015: £25.4m and £6.4m) respectively, and CGU2 has £0.8m (2015: £1.0m) of goodwill allocated.

Goodwill arose on the acquisition of Advanced Medical Solutions B.V. on 30 September 2009 and the acquisition of RESORBA® on the 22nd December 2011.

The goodwill and intangible assets with indefinite useful economic life have been allocated to the relevant Business Units in proportion to profit from operations on a consistent basis for all four segments, as follows:

	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Consolidated £'000
<b>At 31 December 2016</b>					
Goodwill	30,516	8,489	1,092	240	40,337
Intangible assets with indefinite useful life	6,753	2,132	–	–	8,885
	37,269	10,621	1,092	240	49,222

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts have been determined based on a value-in-use calculation on a cash generating unit basis, which uses cash flow projections based on financial budgets approved by the Directors covering a 12 month period. These budgets have been adjusted for specific risk factors that take into account sensitivities of the projection. The base 12 month projection is extrapolated using reasonable growth rates specific to each cash generating unit up to year five of between 0% and 15% and has not been inflated for years six to 20 which management believes does not exceed the long-term average growth rate for the industry or forecast company growth. The growth rate would have to fall significantly in order for an impairment to be required. A discount rate of between 6.5% and 7.0% per annum (2015: between 6.0% and 7.5%), being the Group's current pre tax weighted average cost of capital adjusted for risk, has been applied to these cash flows, being an estimation of current market risks and the time value of money. The Group has conducted a sensitivity analysis on the impairment test. The Directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause any of the carrying amounts to exceed the relevant recoverable amount.

## Notes Forming Part of the Consolidated Financial Statements

### continued

#### 20 Inventories

	2016 £'000	2015 £'000
Raw materials	4,971	4,376
Work in progress	2,819	1,699
Finished goods	3,650	2,768
	<b>11,440</b>	8,843

There is no material difference between the replacement cost of stock and the amount at which it is stated in the Financial Statements.

Included above are finished goods of £nil (2015: £nil) carried at net realisable value.

	2016 £'000	2015 £'000
Total gross inventories	12,995	9,764
Inventory provision	(1,555)	(921)
Net inventory	<b>11,440</b>	8,843

	2016 £'000	2015 £'000
Inventory impairment		
At beginning of year	(921)	(685)
Income statement charge	(1,304)	(694)
Provision released	69	36
Provision utilised	601	422
At end of year	<b>(1,555)</b>	(921)

#### 21 Trade and Other Receivables

	2016 £'000	2015 £'000
Due: within one year		
Trade receivables	10,456	9,376
Other receivables	255	41
Prepayments and accrued income	1,161	1,400
	<b>11,872</b>	10,817

	2016 £'000	2015 £'000
Amount receivable for the sale of goods	10,692	9,644
Provision for impairment	(236)	(268)
	<b>10,456</b>	9,376

The Group's principal financial assets are cash and trade receivables. The Group's credit risk is primarily attributable to its trade receivables.

The average credit period taken on sales of goods is 41 days (2015: 41 days). No interest is charged on the receivables within the contracted credit period. Thereafter, interest may be charged at 2% per month on the outstanding balance. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the Group's large and unrelated customer base. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for impairments.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits are reviewed on an ongoing basis and reflect current payment history.

Included in the Group's trade receivable balance are debtors which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable - a large proportion of debts overdue over 30 days were recovered post the Balance Sheet date. The Group does not hold any collateral or other credit enhancements over these balances. The carrying amount and ageing of these debtors are summarised on page 93.

**Ageing of overdue but not impaired receivables**

	2016 £'000	2015 £'000
31-60 days overdue	128	187
61 to 90 days overdue	20	56
Total	148	243

**Movement in provision for impairment**

	2016 £'000	2015 £'000
Balance at the beginning of the year	268	243
Impairment losses recognised	100	147
Amounts written off as uncollectible	(1)	(9)
Amounts recovered during the year	(131)	(113)
Balance at the end of the year	236	268

**Ageing of impaired trade receivables**

	2016 £'000	2015 £'000
Not yet due	3	82
0 to 30 days overdue	–	–
31 to 60 days overdue	2	3
61 to 90 days overdue	18	–
Over 90 days overdue	213	183
Total	236	268

**Analysis of customers**

In the year ended 31 December 2016, there were no customers accounting for more than 10% of revenue (2015: same).

**22 Cash and Cash Equivalents**

	2016 £'000	2015 £'000
Cash and cash equivalents	51,125	34,201

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

**23 Trade and Other Payables**

	2016 £'000	2015 £'000
<b>Current liabilities</b>		
Trade payables	3,278	3,339
Other payables	1,599	1,367
Derivative financial instruments	2,605	525
Accruals and deferred income	5,419	3,908
	12,901	9,139
<b>Non-current liabilities</b>		
Other payables	362	415
Derivative financial instruments	929	–
	1,291	415

Trade payables, other payables and accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs.

The average credit period taken for trade purchases is 33 days (2015: 34 days). No interest is charged on trade payables that are within pre-agreed credit terms. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

## Notes Forming Part of the Consolidated Financial Statements

### continued

#### 24 Financial Instruments

##### Categories of financial instruments

All financial instruments held by the Group, as detailed in this Note, are classified as 'Loans and Receivables' (trade and other receivables, cash and cash equivalents), 'Held to maturity investments' (short-term investments), 'Financial Liabilities Measured at Amortised Cost' (trade and other payables, financial liabilities and obligations under finance leases), 'Derivative instruments in designated hedge accounting relationships (cash flow hedges)' and 'Fair value through profit and loss (FVTPL)' (derivative financial instruments) under IAS 39 'Financial Instruments: Recognition and Measurement' and finance leases under IAS 17 'Leases'.

	Carrying value	
	2016 £'000	2015 £'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<b>61,846</b>	43,631
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	<b>3,534</b>	525
Amortised cost	<b>14,192</b>	9,555

In December 2014 the Group entered into a multi-currency facility with the Royal Bank of Scotland and HSBC. The principle features of the facility are:

- The committed value of the facility is £30 million
- There is an uncommitted accordion of an additional £20 million
- Is unsecured
- Facility will expire in December 2019
- The interest payable on drawings under the loan is based on inter-bank interest (EURIBOR or, if sterling denominated LIBOR) plus a sliding scale margin determined by the Group's leverage: the margin is currently 0.65%
- The facility has two covenants - interest cover (ratio of EBITDA to net finance charges) must be above 4:1 and leverage (ratio of Total Net Debt to adjusted EBITDA) should not exceed 3:1
- It was undrawn at the end of the year

The Risk Management section on pages 38 to 41 provides an explanation of the financial risks faced by the Group and the objectives and policies for managing those risks. The information below deals with the financial assets and liabilities.

##### (a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, of which other loans and finance lease obligations are at fixed rates and denominated in Sterling whilst derivative financial instruments are non-interest bearing, is as follows:

	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Five years or more £'000	Total financial liabilities £'000	Interest rate %
<b>2016</b>						
Trade and other payables	<b>13,830</b>	<b>53</b>	<b>158</b>	<b>151</b>	<b>14,192</b>	–
<b>At 31 December 2016</b>	<b>13,830</b>	<b>53</b>	<b>158</b>	<b>151</b>	<b>14,192</b>	
	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Five years or more £'000	Total financial liabilities £'000	Interest rate %
<b>2015</b>						
Trade and other payables	9,139	53	158	204	9,554	–
Finance lease creditors	1	–	–	–	1	24%
<b>At 31 December 2015</b>	<b>9,140</b>	<b>53</b>	<b>158</b>	<b>204</b>	<b>9,555</b>	

	Fixed rate financial liabilities	
	Weighted average period for which rate is fixed	
	2016 Years	2015 Years
Finance lease creditors	–	5



**(b) Interest rate and currency of financial assets**

The currency and interest rate profile of the financial assets of the Group is as follows:

**Cash and cash equivalents**

	Floating £'000	Non-interest bearing £'000	Total £'000
<b>Currency</b>			
<b>Sterling</b>	<b>16,195</b>	<b>30,621</b>	<b>46,816</b>
<b>US Dollar</b>	<b>136</b>	<b>973</b>	<b>1,109</b>
<b>Euro</b>	<b>2,625</b>	<b>575</b>	<b>3,200</b>
<b>At 31 December 2016</b>	<b>18,956</b>	<b>32,169</b>	<b>51,125</b>

	Floating £'000	Non-interest bearing £'000	Total £'000
<b>Currency</b>			
Sterling	5,543	24,048	29,591
US Dollar	51	528	579
Euro	2,192	1,839	4,031
At 31 December 2015	7,786	26,415	34,201

**Trade and other receivables**

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

	2016 £'000	2015 £'000
Sterling	<b>6,389</b>	5,963
US Dollar	<b>2,399</b>	1,874
Euro	<b>3,084</b>	2,980
	<b>11,872</b>	10,817

The financial assets all mature within one year.

**(c) Currency exposures**

At 31 December 2016, the Group had unhedged US Dollar currency exposures of £nil (2015: £nil) and unhedged Euro currency exposures of £nil (2015: £nil).

**Risk sensitivity**

The Group estimates that a 10% movement in the £:US\$ or £:Euro exchange rate will impact 2016 Sterling revenues by approximately 2.7% and 3.1% respectively and in the absence of any hedging this would have an impact on profit of 2.2% and 0.5%.

**Forward foreign exchange contracts**

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts.

The following table details the forward foreign currency contracts outstanding as at the year-end:

**Outstanding contracts**

Cash flow hedges	Average exchange rate		Foreign currency		Contract value		Fair value	
	2016 USD:£1	2015 USD:£1	2016 USD '000	2015 USD '000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Sell US dollars								
Less than 3 months	<b>1.467</b>	1.606	<b>5,250</b>	5,100	<b>3,579</b>	3,176	<b>(673)</b>	(257)
3 to 6 months	<b>1.421</b>	1.527	<b>5,250</b>	4,000	<b>3,696</b>	2,619	<b>(548)</b>	(80)
7 to 12 months	<b>1.423</b>	1.526	<b>10,500</b>	8,600	<b>7,377</b>	5,634	<b>(1,079)</b>	(167)
Over 12 months	<b>1.319</b>	1.524	<b>22,200</b>	3,000	<b>16,829</b>	1,969	<b>(857)</b>	(56)
			<b>43,200</b>	20,700	<b>31,481</b>	13,398	<b>(3,157)</b>	(560)

## Notes Forming Part of the Consolidated Financial Statements

### continued

#### 24 Financial Instruments continued

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2016 EUR:£1	2015 EUR:£1	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Sell Euros								
Less than 3 months	<b>1.290</b>	1.309	<b>1,050</b>	600	<b>814</b>	459	<b>(85)</b>	21
3 to 6 months	<b>1.263</b>	1.358	<b>1,250</b>	650	<b>990</b>	479	<b>(73)</b>	2
7 to 12 months	<b>1.245</b>	1.358	<b>2,500</b>	1,900	<b>2,009</b>	1,399	<b>(146)</b>	9
Over 12 months	<b>1.192</b>	1.356	<b>2,400</b>	350	<b>2,013</b>	258	<b>(72)</b>	1
			<b>7,200</b>	3,500	<b>5,826</b>	2,595	<b>(376)</b>	33

The fair value amounts presented above are the difference between the market value of equivalent instruments at the balance sheet date and the contract value of the instruments. No profits or losses are included in operating profit in the year (2015: Enil) in respect of FVTPL contracts. The loss of £3,533,000 (2015: £526,000 loss) in respect of cash flow hedges has been taken to reserves.

#### 25 Fair Value of Financial Assets and Liabilities

The Directors consider that the fair value of the Group's financial instruments do not differ significantly from their book values.

#### 26 Foreign Exchange Rates

	Average rate		Closing rate		Percentage change	
	2016	2015	2016	2015	Average %	Closing %
Currency						
US Dollar	<b>1.3661</b>	1.5315	<b>1.2312</b>	1.4833	<b>(11)</b>	<b>(17)</b>
Euro	<b>1.2352</b>	1.3740	<b>1.168</b>	1.3625	<b>(10)</b>	<b>(14)</b>

#### 27 Share Capital

	Allotted, called up and fully paid '000
Number of Ordinary Shares of 5p each	
At 1 January 2015	207,852
Share options exercised	1,170
At 31 December 2015	209,022
Share options exercised or Shares issued into Trust	1,452
<b>At 31 December 2016</b>	<b>210,474</b>

During the year, employees exercised share options and options over LTIPs for 965,958 shares (2015: 1,002,578) at a range of option prices from 17p to 132p.

During the year, 354,582 (2015: 167,422) shares were issued under the Deferred Share Bonus Scheme and the Deferred Annual Bonus Scheme at the nominal value of 5p per share. At the balance sheet date, 501,324 (2015: 450,000) of shares are retained by the Trust to meet the matching requirements of the scheme.

	Allotted, called up and fully paid '000
Ordinary Shares of 5p each	
At 1 January 2015	10,393
Share options exercised	58
At 31 December 2015	10,451
New issues in the year	73
<b>At 31 December 2016</b>	<b>10,524</b>

#### 28 Reserves

##### Investment in own shares

This is the nominal value of the shares held in trust on behalf of employees in respect of the DSB scheme.

##### Other reserve

This represents Advanced Medical Solutions Limited's share premium account arising from merger accounting.

**Hedging reserve**

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

**Translation reserve**

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parents functional currency, being Sterling, are recognised directly in the translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the translation reserve.

A £8,851,000 gain has been recorded in the translation reserve during the period, which would otherwise have been recognised in administration costs (2015: £3,348,000 loss), if hedge accounting had not been adopted.

**29 Share-Based Payments**

The charge for share based payments under IFRS 2 arises across the following schemes:

	2016 £'000	2015 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Scheme	102	98
Long-Term Incentive Plan	744	360
Deferred Share Bonus Scheme and Deferred Annual Bonus Scheme	384	251
	<b>1,230</b>	709

**Unapproved Executive Share Option Scheme and Enterprise Management Incentive Scheme (EMI) and Company Share Option Plan (CSOP)**

The fair value of the executive options is calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant Date	12/04/2007	20/04/2009	16/04/2010	15/04/2011	08/09/2011	10/05/2012	20/06/2012	06/09/2012
Share price at grant date	16.75p	33.75p	42.0p	88.0p	86.25p	69.08p	67.5p	76.75p
Exercise price	16.75p	33.75p	42.0p	88.0p	86.25p	69.08p	67.5p	76.75p
Expected life	3.5 yrs	3 yrs	3.5 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	5.00%	2.40%	2.40%	1.92%	1.92%	0.39%	0.39%	0.17%
Expected volatility	27%	34%	34%	18%	18%	34%	34%	34%
Expected dividend yield	0%	0%	0%	0.7%	0.7%	0.7%	0.7%	0.7%
Fair value of options	2p	6p	9p	9p	9p	13p	12p	17p

Grant Date	26/04/2013	21/05/2013	19/09/2013	15/04/2014	19/09/2014	02/04/2015	18/04/2016
Share price at grant date	77.5p	74.0p	90.0p	115.75p	121.75p	132.0p	184.6p
Exercise price	77.5p	74.0p	90.0p	115.75p	121.75p	132.0p	184.6p
Expected life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	0.36%	0.49%	0.86%	0.80%	0.80%	0.80%	0.67%
Expected volatility	36%	36%	36%	36%	36%	31%	25%
Expected dividend yield	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.4%
Fair value of options	15p	14p	14p	23p	24p	22p	25p

Under the terms of the Company's Share Option Schemes, approved by Shareholders in 2010, the Board may offer options to purchase Ordinary Shares in the Company to all employees of the Company at the market price on a date to be determined prior to the date of the offer. Since 2005, individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the Company's Share Option Schemes.

Performance targets are assessed over a three-year period from the date of grant. Once options have vested they can be exercised during the period up to ten years from the date of grant.

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

Options have been granted over the following number of Ordinary Shares which were outstanding at 31 December 2016:

## Notes Forming Part of the Consolidated Financial Statements

continued

### 29 Share-Based Payments continued

	Date of grant	Option price (p)	Weighted average price at exercise (p)	No. of options as at 1 January 2016	Remaining life 1 January 2016	Issued	Lapsed	Exercised	No. of options as at 31 December 2016	Remaining life 31 December 2016
<b>Unapproved Executive Share Option Scheme</b>										
	16.04.10	42.00	192.38	5,000	4.3	–	–	(5,000)	–	3.3
	20.06.12	67.50	192.38	118,390	6.5	–	–	(43,056)	75,334	5.5
	26.04.13	77.50	198.35	15,000	7.3	–	–	(15,000)	–	6.3
	21.05.13	74.00	202.73	451,454	7.4	–	–	(391,454)	60,000	6.4
	19.09.13	90.00	215.25	3,000	7.7	–	–	(3,000)	–	6.7
	15.04.14	115.75	–	484,679	8.3	–	–	–	484,679	7.3
	19.09.14	121.75	–	127,680	8.7	–	–	–	127,680	7.7
	02.04.15	132.00	–	365,296	9.2	–	–	–	365,296	8.2
	18.04.16	184.60	–	–	–	755,572	–	–	755,572	9.3
<b>Enterprise Management Incentive Scheme</b>										
	12.04.07	16.75	214.00	15,000	1.0	–	–	(15,000)	–	–
	20.04.09	33.75	181.77	9,000	3.3	–	–	(6,000)	3,000	2.3
	16.04.10	42.00	186.46	118,500	4.3	–	–	(60,500)	58,000	3.3
<b>Company Share Option Plan</b>										
	15.04.11	88.00	183.00	19,000	5.3	–	(11,000)	(2,000)	6,000	4.3
	08.09.11	86.25	197.53	3,000	5.7	–	–	(2,000)	1,000	4.7
	10.05.12	69.08	198.35	51,000	6.4	–	–	(22,000)	29,000	5.4
	20.06.12	67.50	173.95	128,591	6.5	–	–	(128,591)	–	5.5
	06.09.12	76.75	196.70	2,500	6.7	–	–	(2,500)	–	5.7
	26.04.13	77.50	183.00	85,000	7.3	–	(15,000)	(69,000)	1,000	6.3
	21.05.13	74.00	196.70	119,865	7.4	–	–	(74,716)	45,149	6.4
	15.04.14	115.75	–	135,321	8.3	–	–	–	135,321	7.3
	19.09.14	121.75	–	116,320	8.7	–	–	–	116,320	7.7
	02.04.15	132.00	–	99,704	9.2	–	–	–	99,704	8.2
	18.04.16	184.60	–	–	–	148,053	–	–	148,053	9.3
				<b>2,473,300</b>		903,625	(26,000)	(839,817)	<b>2,511,108</b>	

The weighted average remaining contractual life of the options outstanding at 31 December 2016 is 8.0 years (2015 7.8 years).

	2016		2015	
	Number of Options	Weighted average exercise price (p)	Number of Options	Weighted average exercise price (p)
Outstanding at beginning of the year	2,473,300	97.52	2,965,254	84.32
Granted	903,625	184.60	495,000	132.00
Exercised	(839,817)	194.23	(766,954)	149.70
Lapsed	(26,000)	81.94	(220,000)	106.20
Outstanding at end of the year	2,511,108	138.49	2,473,300	97.52
Exercisable at end of year	278,483	64.99	469,981	59.70

**Long Term Incentive Plan (LTIP)**

The fair value of the LTIP is calculated based on a binominal tree model assuming the inputs below:

Grant date	15/04/2011	20/06/2012	06/09/2012	21/05/2013	19/09/2013	06/06/2014	02/04/2015	10/09/2015	18/04/2016
Share price of grant date	88.00p	67.5p	76.8p	74.0p	90.0p	117.0p	132.0p	151.5p	<b>184.6p</b>
Exercise price	0p	0p	0p	0p	0p	0p	0p	0p	<b>0p</b>
Expected life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	<b>3 yrs</b>
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	<b>10 yrs</b>
Risk free rate	1.92%	0.39%	0.39%	0.49%	0.86%	0.80%	0.80%	0.67%	<b>0.67%</b>
Expected volatility	33%	34%	34%	35%	36%	36%	29%	27%	<b>25%</b>
Expected dividend yield	0%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.4%	<b>0.4%</b>
Probability of performance conditions	52%	44%	49%	64%	70%	75%	65%	65%	<b>64%</b>
Fair value of option	76.5p	28.8p	36.4p	46.3p	60.9p	85.9p	64.4p	75.5p	<b>159.0p</b>

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 58. The numbers shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Date of grant	Market price at date of grant (p)	Number of LTIPs at 1 January 2016	Remaining life 1 January 2016				Number of LTIPs at 31 December 2016	Remaining life 31 December 2016
				Issued	Lapsed	Exercised		
<b>Long-Term Incentive Plan</b>								
15.04.11	88.00	<b>188,628</b>	<b>6.3</b>	–	–	–	<b>188,628</b>	<b>5.3</b>
20.06.12	67.50	<b>55,118</b>	<b>6.5</b>	–	–	(55,118)	–	–
06.09.12	76.75	<b>254,945</b>	<b>6.7</b>	–	–	–	<b>254,945</b>	<b>5.7</b>
21.05.13	74.00	<b>100,000</b>	<b>7.4</b>	–	(50,000)	(50,000)	–	–
19.09.13	90.00	<b>403,122</b>	<b>7.8</b>	–	(201,562)	–	<b>201,560</b>	<b>6.8</b>
06.06.14	117.00	<b>857,957</b>	<b>8.5</b>	–	(33,334)	(16,666)	<b>807,957</b>	<b>7.5</b>
02.04.15	132.00	<b>494,357</b>	<b>9.3</b>	–	(21,787)	(4,357)	<b>468,213</b>	<b>8.3</b>
10.09.15	151.50	<b>300,329</b>	<b>9.7</b>	–	–	–	<b>300,329</b>	<b>8.7</b>
18.04.16	184.60	–	–	700,991	(68,975)	–	<b>632,016</b>	<b>9.7</b>
		<b>2,654,456</b>		<b>700,991</b>	<b>(375,658)</b>	<b>(126,141)</b>	<b>2,853,648</b>	

The weighted average remaining contractual life of the LTIPs outstanding at 31 December 2016 is 7.9 years (2015: 8.3 years).

	2016 Number of Options	2015 Number of Options
Outstanding at beginning of the period	<b>2,654,456</b>	2,460,076
Granted	<b>700,991</b>	794,686
Exercised	<b>(126,141)</b>	(235,624)
Lapsed	<b>(375,658)</b>	(364,682)
Outstanding at end of the period	<b>2,853,648</b>	2,654,456
Exercisable at end of period	<b>1,453,090</b>	498,691

The exercise price of these options is £1 for each issue of LTIPs per individual.

## Notes Forming Part of the Consolidated Financial Statements

### continued

#### 29 Share-Based Payments continued

##### Deferred Share Bonus Scheme (DSB)

The fair value of the DSB Shares are calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant date	12/04/2007	12/04/2007	02/05/2008	23/04/2009	05/05/2010	05/05/2010	11/05/2011	11/05/2011	10/05/2012
Share price at grant date	18.25p	18.25p	35.50p	34.00p	40.32p	40.32p	83.00p	83.00p	70.625p
Exercise price	0p	0p	0p	0p	0p	0p	0p	0p	0p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	5.00%	5.00%	5.00%	2.40%	2.40%	2.40%	1.92%	1.92%	0.39%
Expected volatility	27%	27%	38%	30%	34%	34%	18%	18%	34%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0.7%	0.7%	0.7%
Probability of performance conditions	100%	66.70%	100%	100%	100%	100%	100%	100%	100%
Fair value of option	14p	9p	30p	29p	34p	34p	72p	72p	61p

Grant date	10/05/2012	02/07/2013	02/07/2013	30/04/2014	30/04/2014	29/04/2015	29/04/2015	03/05/2016	03/05/2016
Share price at grant date	70.625p	74.125p	74.125p	126.0p	126.0p	141.5p	141.5p	183.0p	183.0p
Exercise price	0p	0p	0p	0p	0p	0p	0p	0p	0p
Expected life	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	0.39%	0.69%	0.69%	0.80%	0.80%	0.80%	0.80%	0.67%	0.67%
Expected volatility	34%	36%	36%	36%	36%	31%	31%	25%	25%
Expected dividend yield	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.4%	0.4%
Probability of performance conditions	100%	100%	100%	100%	100%	100%	100%	100%	100%
Fair value of option	62p	63p	64p	108p	110p	122p	124p	160p	161p

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

The entitlement to shares under the DSB is subject to a three-year holding period. Additionally, for certain levels of share matching, additional performance conditions also need to be achieved. The actual number of shares that will be matched will depend on these performance conditions. Details on the DSB are given on page 58.

Date of grant	Market price at date of grant (p)	Number of DSB matching shares at 1 January 2016	Remaining life 1 January 2016				Number of DSB matching shares at 31 December 2016	Remaining life 31 December 2016
				Issued	Lapsed	Exercised		
<b>Deferred Share Bonus Plan</b>								
12.04.07	18.25	<b>17,970</b>	<b>1.3</b>	–	–	(2,191)	<b>15,779</b>	<b>0.3</b>
02.05.08	35.50	<b>15,048</b>	<b>2.3</b>	–	–	(1,408)	<b>13,640</b>	<b>1.3</b>
23.04.09	34.00	<b>53,275</b>	<b>3.3</b>	–	–	(18,063)	<b>35,212</b>	<b>2.3</b>
05.05.10	40.32	<b>99,450</b>	<b>4.3</b>	–	–	(70,310)	<b>29,140</b>	<b>3.3</b>
11.05.11	83.00	<b>60,508</b>	<b>5.4</b>	–	–	(26,487)	<b>34,021</b>	<b>4.4</b>
10.05.12	70.625	<b>51,471</b>	<b>6.4</b>	–	–	(14,543)	<b>36,928</b>	<b>5.4</b>
02.07.13	74.125	<b>379,905</b>	<b>7.5</b>	–	–	(191,489)	<b>188,416</b>	<b>6.5</b>
30.04.14	126.000	<b>171,514</b>	<b>8.6</b>	–	(8,303)	(10,624)	<b>152,587</b>	<b>7.6</b>
29.04.15	141.500	<b>252,563</b>	<b>9.6</b>	–	(2,338)	(7,803)	<b>242,422</b>	<b>8.6</b>
03.05.16	183.000	–	–	367,204	(18,104)	(2,949)	<b>346,151</b>	<b>9.6</b>
		<b>1,101,704</b>		367,204	(28,745)	(345,867)	<b>1,094,296</b>	

The weighted average remaining contractual life of the DSBs outstanding at 31 December 2016 is 7.6 years (2015: 7.3 years).



**Deferred Share Bonus Scheme (DSB)**

	2016 Number of Options	2015 Number of Options
Outstanding at beginning of the period	1,101,704	1,021,404
Granted	367,204	264,812
Exercised	(345,867)	(167,422)
Forfeited	(28,745)	(17,090)
Outstanding at end of the period	1,094,296	1,101,704
Exercisable at end of period	353,136	297,722

The exercise price of the matching shares is £nil.

**Deferred Annual Bonus Scheme (DABs)**

The fair value of the DSB are calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant date	21/05/2014	15/04/2015	18/04/2016
Share price at grant date	115.4p	129.0p	184.6p
Exercise price	0p	0p	0p
Expected life	3 yrs	3 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs
Risk-free rate	0.80%	0.80%	0.67%
Expected volatility	31%	31%	25%
Expected dividend yield	0.7%	0.7%	0.4%
Probability of performance conditions	100%	100%	100%
Fair value of option	115p	129p	183p

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

The Deferred Annual Bonus scheme (DAB) began on 21 May 2014. Participants compulsorily defer part of their bonus for the relevant financial year. The grant vests at the end of a three-year period determined by the Remuneration Committee starting from the date of grant.

	Date of grant	Market price at date of grant (p)	Number of DAB matching shares at 1 January 2016	Remaining life 1 January 2016	Issued	Lapsed	Exercised	Number of DAB shares at 31 December 2016	Remaining life 31 December 2016
<b>Deferred Annual Bonus Plan</b>									
	21.05.2014	115.40	52,398	8.6	–	–	(1,585)	50,813	7.6
	15.04.2015	129.00	81,961	9.6	–	–	(3,668)	78,293	8.6
	18.04.2016	184.60	–	–	94,201	–	(3,462)	90,739	9.6
			134,359	18.2	94,201	–	(8,715)	219,845	

The weighted average remaining contractual life of the DABs outstanding at 31 December 2016 is 8.8 years (2015: 9.2).

**Deferred Annual Bonus Plan (DAB)**

	2016 Number of Options	2015 Number of Options
Outstanding at beginning of the period	134,359	52,398
Granted	94,201	81,961
Exercised	(8,715)	–
Forfeited	–	–
Outstanding at end of the period	219,845	134,359
Exercisable at end of period	–	–

## Notes Forming Part of the Consolidated Financial Statements continued

### 30 Commitments under Operating Leases

As at 31 December 2016, the Group had outstanding commitments under operating leases, which fall due as follows:

	2016 Land and buildings £'000	2016 Other £'000	2015 Land and buildings £'000	2015 Other £'000
Amounts payable under operating leases:				
Within one year	<b>908</b>	<b>83</b>	885	73
In two to five years	<b>3,633</b>	<b>143</b>	3,561	87
After five years	<b>2,207</b>	<b>7</b>	3,087	–
	<b>6,748</b>	<b>233</b>	7,533	160

### 31 Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and there are no other related party transactions to disclose.

## Company Balance Sheet

At 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Non current assets</b>			
Investments in subsidiaries	3	52,147	52,082
<b>Current assets</b>			
<b>Investments</b>			
Trade and other receivables	4	3,479	212
Cash and cash equivalents		42,530	28,693
		46,009	28,905
<b>Current liabilities</b>			
Trade and other payables	5	(3,698)	(5,120)
<b>Net current assets</b>		42,311	23,785
<b>Net assets</b>		94,458	75,867
<b>Equity shareholders' funds</b>			
Share capital	6	10,524	10,451
Share-based payments reserve		3,469	2,253
Investment in own shares		(152)	(152)
Share premium		34,005	33,196
Retained earnings		46,612	30,119
<b>Equity attributable to equity holders of the parent</b>		94,458	75,867

## Statement of Changes in Equity

For the Year ended 31 December 2016

	Share capital £'000	Share-based payments £'000	Investment in own shares £'000	Share premium £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2015</b>	10,393	1,563	(148)	32,742	13,640	58,190
Share-based payments	–	709	–	–	–	709
Share options exercised	58	(19)	–	454	–	493
Shares purchased by EBT	–	–	(262)	–	–	(262)
Shares sold by EBT	–	–	258	–	–	258
Profit for the year	–	–	–	–	18,000	18,000
Dividends paid	–	–	–	–	(1,521)	(1,521)
<b>At 31 December 2015</b>	10,451	2,253	(152)	33,196	30,119	75,867
Share-based payments	–	1,230	–	–	–	1,230
Share options exercised	73	(14)	–	809	–	868
Shares purchased by EBT	–	–	(449)	–	–	(449)
Shares sold by EBT	–	–	449	–	–	449
Profit for the year	–	–	–	–	18,276	18,276
Dividends paid	–	–	–	–	(1,783)	(1,783)
<b>At 31 December 2016</b>	10,524	3,469	(152)	34,005	46,612	94,458

The Financial Statements of Advanced Medical Solutions Group plc (registration number 2867684) on pages 71 to 102 were approved by the Board of Directors and authorised for issue on 28 April 2017 and were signed on its behalf by:

**Chris Meredith**

Chief Executive Officer

28 April 2017

# Notes to the Company Financial Statements

Year ended 31 December 2016

## 1 Significant Accounting Policies

### **Basis of preparation**

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

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.

In these Financial Statements, the Company has adopted FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a Cash Flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets business combinations, discontinued operations and related party transactions.

IFRS 2 Share-based payments has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005. This treatment is consistent with the transitional provisions taken when the Company adopted FRS 20, the UK equivalent standard.

In the transition to FRS 101 from UK GAAP, the Company has made measurement and recognition adjustments which are detailed below.

### **Critical judgements in applying the company's accounting policies**

In the process of applying the Company's accounting policies, which are described below, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations, which are dealt with below) and have been identified as being particularly complex or involve subjective assessments.

### **Share-based payments**

The charge to the Income Statement in relation to options and incentive plans is based on the Black-Scholes Merton or the Monte Carlo Option Pricing Model valuation technique. These techniques require a number of assumptions to be made such as those in relation to share price volatility, movement in interest rates, dividend yields and staff behavioural patterns. Details of the accounting policies applied in respect of share-based payments are set out on page 105.

### **Tax**

A deferred tax asset is recognised when it is judged probable that the Company will generate taxable profits which can be offset against tax losses. The measurement of the tax benefit recognised in the Consolidated Financial Statements is based upon the largest amount of tax benefit that, in management's judgement, is likely to be realised. Details of the accounting policies applied in respect of deferred tax are set out below.

### **Impairment of investments and intragroup receivables**

Investment and receivable carrying values are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset or cash generating unit is not recoverable. Recoverable amount is the higher of fair value, as supported by management valuation, less costs to sell and 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 risks specific to the asset for which the estimates of future cash flows have not been adjusted.

### **Investments in subsidiaries**

Investments in subsidiaries are shown at cost less provision for impairment

### **Foreign currencies**

Transactions in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in the profit or loss for the period.

### **Taxation**

Tax on the profit or loss for the period comprises current and deferred tax.

### **Current tax**

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

### **Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences in respect of the initial recognition of assets and liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

**Trade and other creditors**

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

**Finance charges**

Finance charges comprise interest payable on interest-bearing loans and borrowings and fair value losses on interest rate swap derivative financial instruments. Finance charges are recognised in the Income Statement on an effective interest method.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

**Derivatives**

The Company uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value and re-measured at each period end. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement. The Company has elected not to apply hedge accounting. Forward currency contracts are recognised at fair value in the Balance Sheet with movements in fair value recognised in the Income Statement for the period. The fair value of the instruments is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the respective risk profiles of the swap counterparties.

Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

**Share-based payments**

The Company has applied the requirements of IFRS 2 Share-based payments.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each Balance Sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

## 2 Income Statement

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Income Statement for the year. Advanced Medical Solutions Group plc reported a profit for the financial year ended 31 December 2016 of £18,276,000 (2015: profit of £18,000,000).

The Auditors' remuneration for audit and other services is disclosed in Note 7 to the Consolidated Financial Statements.

The average number of employees in the year was 11 (2015: 11). The Directors' remuneration is detailed in Note 9 to the Consolidated Financial Statements.

## Notes to the Company Financial Statements continued

### Year ended 31 December 2016

#### 3 Investments in Subsidiaries

	Investments in subsidiaries £'000
<b>Cost</b>	
At 1 January 2016	80,752
Additions	65
At 31 December 2016	80,817
<b>Provisions for impairment</b>	
At 1 January 2016	28,670
At 31 December 2016	28,670
<b>Net Book value</b>	
<b>At 31 December 2016</b>	<b>52,147</b>
At 31 December 2015	52,082

In the year to 31 December 2014, a loan of £59,000,000 with Advanced Medical Solutions (Germany) GmbH was converted to an investment in Advanced Medical Solutions (Europe) Limited.

Shares in Group undertakings and loans to Group undertakings have been written down to recognise losses in subsidiary companies.

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts:

Name	Country of Operation	Proportion of voting rights and ordinary share capital Held	Nature of business
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company
Advanced Medical Solutions Trustee Company Limited	England	100%	Trustee Company
Advanced Medical Solutions (Plymouth) Limited	England	100%	Development and manufacture of medical products
Advanced Healthcare Systems Limited	England	100%*	Dormant
Advanced Medical Solutions Group Inc.	USA	100%†	Holding Company
MedLogic Global Holdings Limited	England	100%‡	Holding Company
Innovative Technologies Limited	England	100%‡	Dormant
Advanced Medical Solutions BV	Netherlands	100%	Development and manufacture of medical products
Advanced Medical Solutions (Germany) GmbH	Germany	100% <sup>^</sup>	Holding Company
Resorba Medical GmbH	Germany	100% <sup>#</sup>	Development and manufacture of medical products
	Czech		
Resorba s.r.o.	Republic	100% <sup>#</sup>	Manufacture and sales office of medical products
Resorba ooo	Russia	100% <sup>#</sup>	Sales office of medical products
MPN Medizin Produkte Neustadt GmbH	Germany	100% <sup>#</sup>	Manufacturer of medical products
Advanced Medical Solutions (USA) Inc.	USA	100% <sup>¶</sup>	Marketing support of medical products
Advanced Medical Solutions (Europe) Limited	England	100%	Providing financial support to other Group entities

\* Held indirectly through Advanced Medical Solutions Limited.

‡ Held indirectly through MedLogic Global Holdings Limited.

† Held indirectly through Advanced Medical Solutions (UK) Limited.

<sup>^</sup> s.291 of German Commercial Code invoked: No consolidated financial statements prepared for the German companies.

<sup>¶</sup> Held indirectly through Advanced Medical Solutions (Plymouth) Limited

<sup>#</sup> Held indirectly through Advanced Medical Solutions (Germany) GmbH

The above table reflects the situation at the year-end.



## 4 Trade and Other Receivables

	2016 £'000	2015 £'000
<i>Due within one year</i>		
Prepayments and accrued income	180	178
Amounts due from Group undertakings	3,299	–
Derivative financial instruments	–	34
	<b>3,479</b>	212

	2016 £'000	2015 £'000
<i>Amounts owed by Group undertakings</i>		
Cost		
At 1 January	2,340	2,399
Movement	3,299	(59)
At 31 December	<b>5,639</b>	2,340
<b>Provisions for impairment</b>		
At 1 January	2,340	2,340
At 31 December	<b>2,340</b>	2,340
<b>Net book value</b>		
At 31 December	<b>3,299</b>	–

## 5 Creditors: Amounts Falling Due within One Year

	2016 £'000	2015 £'000
Trade creditors	55	31
Other creditors	–	7
Amounts owed to Group undertakings	287	2,862
Accruals and deferred income	2,980	2,220
Derivative financial instruments	376	–
	<b>3,698</b>	5,120

## 6 Share Capital

Details on the share capital of the Company are provided in Note 27 on page 96 to the Group's accounts.

## 7 Share-based Payments

The charge for share-based payments under IFRS 2 arises across the following schemes:

	2016 £'000	2015 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Scheme	102	98
Long-Term Incentive Plan	744	360
Deferred Share Bonus Scheme	384	251
	<b>1,230</b>	709

Details on the share-based payments of the Company are provided in Note 29 on pages 97 to 101 in the Notes to the Group's accounts.

## Five Year Summary

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
<b>Consolidated Income Statement (Pre-exceptional)</b>					
Revenue	<b>82.6</b>	68.6	63.0	59.5	52.6
Profit from operations	<b>19.1</b>	17.0	15.2	13.7	12.3
Profit attributable to equity holders of the parent	<b>15.7</b>	14.1	12.9	11.4	10.5
Basic earnings per share	<b>7.5p</b>	6.8p	6.2p	5.5p	5.2p
<b>Consolidated Statement of Financial Position</b>					
Net assets employed					
<i>Non-current assets</i>	<b>70.1</b>	62.7	66.8	71.3	71.9
Current assets	<b>74.9</b>	53.9	37.8	25.8	25.7
Total liabilities	<b>(19.5)</b>	(12.9)	(11.5)	(11.0)	(23.9)
<b>Net assets</b>	<b>125.5</b>	103.7	93.1	86.1	73.7
<i>Shareholders' equity</i>					
Share capital & investment in own shares	<b>10.4</b>	10.3	10.2	10.2	10.2
Share-based payments reserve	<b>3.5</b>	2.3	1.6	1.3	1.1
Share-based payments deferred tax reserve	<b>0.5</b>	0.4	0.3	0.2	0.2
Share premium account	<b>34.0</b>	33.2	32.8	32.4	31.9
Other reserve	<b>1.5</b>	1.5	1.5	1.5	1.5
Hedging reserve	<b>(3.5)</b>	(0.5)	(0.5)	0.7	(0.1)
Translation reserve	<b>0.6</b>	(8.2)	(4.9)	(0.7)	(1.4)
Retained equity	<b>78.6</b>	64.7	52.1	40.5	30.3
Equity attributable to equity holders of the parent	<b>125.5</b>	103.7	93.1	86.1	73.7

## Notice of Meeting

Notice is hereby given that the twenty-third Annual General Meeting of the Company will be held at 11.00 am on 7 June 2017 at the offices of Investec Bank plc, 2 Gresham Street, London, EC2V 7QP, for the following purposes:

### As Ordinary Business:

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2016 (together with the Report of the Auditor thereon).
2. To approve the Directors' Remuneration Report for the year ended 31 December 2016.
3. To reappoint Deloitte LLP as Auditor and to authorise the Directors to fix their remuneration.
4. To re-elect Peter Allen (who retires by rotation in accordance with the Articles of Association) as a Director of the Company.
5. To re-elect Steve Bellamy (who retires by rotation in accordance with the Articles of Association) as a Director of the Company.
6. To re-elect Peter Steinmann (who retires by rotation in accordance with the Articles of Association) as a Director of the Company.
7. To declare a final dividend of 0.62p per Ordinary Share, payable on 16 June 2017 to shareholders on the register at close of business on 26 May 2017.

### As Special Business:

To consider and, if thought fit, to pass Resolution 8, which will be proposed as an Ordinary Resolution, and Resolutions 9 and 10, which will be proposed as Special Resolutions.

8. To authorise the Directors generally and unconditionally for the purposes of section 551 of the Companies Act 2006 (the '2006 Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (each an allotment of 'relevant securities') up to an aggregate nominal amount of £3,508,736 provided that this authority is for a period expiring upon the earlier of the date of the Company's next Annual General Meeting and 15 months after the date of the passing of this Resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this Resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused.
9. Subject to the passing of Resolution 8 above, to authorise the Directors pursuant to section 570 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) wholly for cash pursuant to the authority conferred by Resolution 8 above as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (a) in connection with an offer of such securities by way of rights to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange;
  - (b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £1,052,620; and
  - (c) which shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 15 months after the date of the passing of this Resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this Resolution has expired.
10. That the Company is hereby generally and unconditionally authorised for the purposes of Section 701 of the 2006 Act to make market purchases (within the meaning of Section 693(4) of the 2006 Act) of any of its Ordinary Shares of 5p each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine provided that:
  - (a) the maximum number of Ordinary Shares which may be purchased is 10,526,209;
  - (b) the minimum price which may be paid for each Ordinary Share is 5p which amount shall be exclusive of expenses, if any;
  - (c) the maximum price (exclusive of expenses) which may be paid for each Ordinary Share shall not be more than 5% above the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased;
  - (d) unless previously renewed, revoked or varied, this authority shall expire upon the earlier of the date of the Company's next Annual General Meeting and 15 months after the date of the passing of this Resolution; and
  - (e) under this authority the Company may make a contract to purchase Ordinary Shares which would or might be executed wholly or partly after the expiry of this authority, and may make purchases of Ordinary Shares pursuant to it as if this authority had not expired.

By order of the Board

**Mary Tavener**

Company Secretary

28 April 2017

**Registered office:**

Premier Park, 33 Road One, Winsford Industrial Estate,  
Winsford, Cheshire, CW7 3RT.

## Notice of Meeting continued

### Notes

1. A member entitled to attend and vote at the meeting convened by the Notice set out on page 109 may appoint a proxy to attend, speak and, on a poll to vote in his place. A holder of more than one Ordinary Share may appoint different proxies in relation to each or any of those Ordinary Shares.
2. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy notice must be given to the Company's Registrars not later than 48 hours before the time appointed for the holding of the meeting.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out at Note 1 of the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. On a vote on a Resolution on a show of hands at the meeting, a proxy has one vote for and one vote against if the proxy has been appointed by more than one member and the proxy has been instructed by one or more of the members to vote for the resolution and by one or more other member to vote against it.
5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
6. A form of proxy is enclosed for use by members. To be effective, it must be completed and arrive not later than 48 hours before the time fixed for the Meeting at Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours.
7. The Register of Directors' Interests in the shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (public holidays excepted) until the date of the Meeting and also on that date and at the place of the Meeting from 9.00 am until the conclusion of the Meeting.
8. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at close of business on 5 June 2017 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their names at that time. Changes in the entries in the relevant register of Securities after close of business on 5 June 2017 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

### Notes on Special Business

#### **Resolution 8: Authority to Allot Shares and other relevant securities**

This Resolution would give the Directors the authority to allot Ordinary Shares up to an aggregate nominal amount equal to £3,508,736 (representing 70,174,730 Ordinary Shares of 5p each). This amount represents approximately one-third of the issued Ordinary Share capital of the Company as at 31 March 2017, the latest practicable date prior to publication of this Notice.

The authority sought under this resolution will expire at the conclusion of the Annual General Meeting of the Company held in 2018 or, if earlier, 15 months after the passing of the resolution.

While the Directors have no present intention of issuing any of the authorised but unissued share capital, it is considered prudent and appropriate to maintain the flexibility that this authority provides.

#### **Resolution 9: Disapplication of Pre-emption Rights**

Your Directors also require additional authority from shareholders to allot shares or grant rights over shares or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders in proportion to their existing holdings. Accordingly, Resolution 9 will be proposed as a Special Resolution to grant such authority. Apart from rights issues, open offers or any other pre-emptive offer as mentioned the authority will be limited to the issue of shares and sales of treasury shares for cash up to an aggregate nominal value of £1,052,620 (being 10% of the Company's issued Ordinary Share capital at 31 March 2017, the latest practicable date prior to publication of this Notice). This is in keeping with the extent for which such authority has been sought and given at each previous Annual General Meeting of the Company since 2006.

Allotments made under the authorisation in paragraph (a) of Resolution 9 would be limited to allotments by way of a rights issue only (subject to the right of the Directors to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

If given, this authority will expire at the conclusion of the Annual General Meeting of the Company held in 2018 or, if earlier, 15 months after the passing of the Resolution.

**Resolution 10: Purchase by the Company of its own Shares**

In certain circumstances, it may be advantageous for the Company to purchase its own shares. Under section 701 of the 2006 Act, the Directors of a Company may make market purchases of that Company's shares if authorised to do so. Your Directors believe that granting such approval would be in the best interests of shareholders in allowing Directors the flexibility to react promptly to circumstances requiring market purchases.

Accordingly, Resolution 10, which will be proposed as a Special Resolution, will give the Directors the authority to purchase issued shares of the Company under section 701 of the 2006 Act.

The authority contained in this Resolution will be limited to an aggregate nominal value of £526,310 (representing 5% of the issued Ordinary Share capital of the Company as at 31 March 2017 the latest practicable date prior to publication of this Notice; representing 10,526,209 Ordinary Shares of 5p each). The price which may be paid for those shares is also restricted as set out in the Resolution.

This authority will expire at the conclusion of the Annual General Meeting of the Company held in 2018 or, if earlier, 15 months after the passing of the Resolution.

The Board has no present intention of exercising this authority. However, this will be kept under review, and the Board will use this power only if and when, taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Group, they believe that the effect of such purchases will be in the best interests of shareholders generally and that they will result in an increase in earnings per share.

Shares purchased under this authority may be held as treasury shares. Shares held in treasury do not carry voting rights and no dividends will be paid on any such shares. Shares held in treasury in this way can be sold for cash or cancelled. This would allow the Company to manage its capital base more effectively and to replenish its distributable reserves.

If and when the Board resolves to exercise its authority to make market purchases, it will at that time decide whether shares purchased are to be cancelled or held in treasury.

As at 31 March 2017, the latest practicable date prior to publication of this Notice, there were share options outstanding over Ordinary Shares, representing 3.2% of the Company's issued ordinary share capital. The Company has no warrants in issue in relation to its shares. If the buyback authority was to be exercised in full, these options would represent 3.3% of the Company's ordinary issued share capital.

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