



Advanced Medical Solutions Group plc

Annual Report 2019



About AMS

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

Our Strategic Pillars are the foundation for success:

Growth

Exploiting the opportunities arising from having a broad product range sold via multiple routes to market and across multiple geographies

Innovation

Strengthening our portfolio by developing or acquiring market-leading high quality products

Operational Excellence

Continuously improving our operations to drive out cost and defend margin

Culture

Investing in hiring and developing talent while embedding our Culture of Care, Fair, Dare

We operate to the highest ethical standards, with our values of Care, Fair, Dare embedded in all we do.



Care

Caring about the work we undertake and the real life differences we can make



Fair

Acting with integrity and ensuring we are fair in all aspects of business



Dare

Moving boundaries and challenging constructively to build on others' ideas

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Business Highlights

Despite significant challenges in 2019, growth was achieved across multiple categories, but was offset by the previously reported downturn in US LiquiBand®. Group revenue of £102.4 million was flat on 2018. Key drivers were:

- US LiquiBand® sales reduced by 23% to £17.7 million (2018: £23.0 million) and by 25% at constant currency
- EU/ROW LiquiBand® revenue increased by 24% at reported and constant currency to £10.8 million (2018: £8.7 million)
- Fix8® sales increased by 27% at reported and constant currency to £2.6 million (2018: £2.1 million)
- Biosurgical sales increased by 9% to £9.4 million (2018: £8.6 million) and by 10% at constant currency
- Suture sales increased by 8% to £14.4 million (2018: £13.3 million) and by 9% at constant currency
- Sales of antimicrobial dressings increased by 4% to £20.6 million (2018: £19.7 million) and by 3% at constant currency

Investment in acquisitions and increased research and development, regulatory and clinical activity is establishing a bedrock for future growth:

- Acquisition of Sealantis in January 2019 for US\$25 million (£19 million) strengthened our internal sealants R&D pipeline
- Acquisition of Biomatlante in November 2019 for €8 million (£7 million) strengthened our biosurgical portfolio and enters AMS into the synthetic bone substitutes market with a differentiated product
- Broadened and more diverse portfolio of innovative, internally developed products

Adjusted operating margin down 180 bps to 26.4% (2018: 28.2%) and adjusted profit before tax down 7% to £26.6 million (2018: £28.8 million) due to investment in the product pipeline including Sealantis, adverse sales mix and currency contracts.

Financial Highlights

Group revenue
(£ million)

£102.4m

2018: £102.6m
Reported change: 0%
(-1% at constant currency¹)

Adjusted² operating
margin (%)

26.4%

2018: 28.2%
Reported change: -180bps

Profit before tax
(£ million)

£24.3m

2018: £28.3m
Reported change: -14%

Adjusted² profit before
tax (£ million)

£26.6m

2018: £28.8m
Reported change: -7%

Diluted earnings
per share (p)

8.72p

2018: 10.41p
Reported change: -16%

Adjusted² diluted
earnings per share (p)

9.83p

2018: 10.63p
Reported change: -8%

Net operating
cash flow

£21.7m

2018: £21.7m
Reported change: 0%

Net cash
(£ million)

£64.8m

2018: £76.4m
Reported change: -15%

Proposed an increased final dividend of 1.05p per share, making a total dividend for the year of 1.55p per share (2018: 1.32p), a 17% increase on 2018.

Impact of COVID-19

Since the balance sheet date, the Group has been impacted by the COVID-19 pandemic. The priority has been the safety, health and well-being of our employees, and supplying our customers as far as is feasibly possible.

Given the strong cash position outlined above, the Group confirms it is in robust financial condition to weather the global disruption caused by the pandemic. The Board believes in the long term prospects of the Group and is still proposing its final dividend for 2019.

The Group currently estimates that its annual revenues will be impacted by approximately 3% to 5% for each month the widespread restrictions remain in place. The Group continues to monitor the situation carefully and will update the market as appropriate.

In this period of uncertainty, the Group continues to carefully manage its operating costs, working capital and capital expenditure to ensure that it remains in the strongest possible financial and operational position to return to strong growth when the Group's end markets recover to a more normal basis.

Further comment on COVID-19 can be found in the Chief Executive's Q&A on page 11 and throughout the Annual Report.

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

² All items are shown before exceptional items which were £1.1 million (2018: £0.4 million) and amortisation of acquired intangible assets which were £1.7 million (2018: £0.1 million) and change in fair value of long-term debt £0.3 million (2018: Nil), as defined in the Financial Review. Adjusted operating margin is shown before exceptional items and amortisation of acquired intangible assets.

³ Net cash is defined as cash and cash equivalents plus short term investments less financial liabilities and bank loans.

Group at a Glance

Our Business

Group sales

£102.4m

Countries

>75

Employees

>700

Distribution partners

>100

Manufacturing
and R&D locations

9



**The AMS Group has nine manufacturing facilities.
The Group's headquarters are located in the UK.**

1. Winsford, UK: HQ: Advanced Woundcare manufacturing, R&D, Sales & Marketing

2. Plymouth, UK: Tissue adhesives manufacturing, R&D, Sales & Marketing

3. Etten Leur, the Netherlands: Bulk foam roll-stock manufacturing, Sales & Marketing

4. Nuremberg, Germany: RESORBA® Collagen and Haemostats manufacturing, R&D, Sales & Marketing

5. Domazlice, the Czech Republic: RESORBA® Sutures manufacturing & Sales

6. Neustadt, Germany: RESORBA® Sutures manufacturing

7. Haifa, Israel: Sealantis® internal sealants manufacturing, R&D

8/9. Nantes, France: Biosurgical products manufacturing, R&D, Sales & Marketing

10. Moscow, Russia: Sales

Business Units in 2019

Surgical

Surgical is reported in five product categories – Advanced Closure, Internal Fixation and Sealants, Traditional Closure, Biosurgical Devices and OEM Sealants.

Woundcare

Woundcare is reported in three product categories – Infection Management, Exudate Management and Other Woundcare.

Surgical Market¹

Advanced Woundcare Market¹

Surgical sales

£56.5m*

2018: £57.1m

*** down 1%, and 2% at constant currency**

Addressable Market

£10.8bn²
2018: £8.5bn

² Sealantis and Biomatlante acquisitions increased our addressable market

Woundcare sales

£45.8m*

2018: £45.5m

*** up 1%, and no change at constant currency**

Our Surgical technologies

- Tissue adhesives
- Collagen
- Sutures
- Oxidised cellulose
- Internal fixation
- Alginate sealants
- Bone substitutes

Our brands

- LiquiBand®
- RESORBA®
- LiquiBandFix8®
- Seal-G®
- Biomatlante

Our Woundcare technologies

- Alginates
- Fibres
- Foams
- Hydrocolloid
- Hydrogels
- Antimicrobial dressings

Our brands

- ActivHeal®*
- * ActivHeal® was incorporated into Woundcare at the start of 2019 to allow a more market-focused approach, along with commercial and R&D synergies

Surgical

Our Surgical Business Unit includes the sales, marketing, research, development and innovation of all our surgical products.

Woundcare

Our Woundcare Business Unit includes sales, marketing, research, development and innovation of all our woundcare devices, regardless of whether they are sold under an AMS or partner brand.

¹ Based on data supplied by The Global Healthcare Exchange and IMS Health.

² Includes Biomatlante (\$0.5bn) and Sealantis (\$1.0bn), which were not part of Surgical in 2018.

Our Business Model

Creating quality outcomes across Surgical and Woundcare



Our Value Chain

New Product Development



Research and development
Design and testing

What resources and relationships we rely on:

- Separate R&D teams focusing on different technologies
- Woundcare: foams, fibres and antimicrobials
- Surgical: tissue adhesives, haemostats, sutures, fixation, sealants and bone substitutes
- Collaborations with universities, Key Opinion Leaders, surgeons and Tissue Viability Nurses
- Extensive patent portfolio: over 30 patent families
- Stage gate process
- R&D Centre of Excellence from Sealantis acquisition

Marketing and Regulatory Approval



Bringing products to market
Regulatory approval in key markets

What resources and relationships we rely on:

- Strong regulatory affairs department with world-wide regulatory experience
- Extensive experience of managing successful audits (FDA, MDSAP) and managing recertification to comply with the Medical Device Regulation
- Regulatory registrations in over 75 countries
- Clinical support teams supporting both product development and post market surveillance

Operations



Manufacturing and security of supply
Quality assurance

What resources and relationships we rely on:

- Nine manufacturing sites
- All manufacturing sites compliant with ISO 13485:2016
- All UK, German and Czech sites are compliant with FDA 21 CFR part 820 Quality Management System (QMS)
- Strong relationships with our supply chain

Our Key Stakeholders

- Communities
- Employees
- Investors
- Patients, Partners and Clinicians
- Regulators
- Supply Chain

Read more on P30 – 43



Our Markets and Products

Surgical

- Surgical market is £8bn
- Products include LiquiBand® tissue adhesives, LiquiBand® Fix8® internal adhesive, RESORBA® sutures, haemostats, bone substitutes and internal sealants

2019 sales:
£56.5m

Woundcare

- Woundcare market is £2.8bn
- Products include alginates, hydrogels, hydrocolloids, antimicrobial dressings, film and foams
- ActivHeal® range of advanced woundcare products

2019 sales:
£45.8m

Reporting in 2019

2019 is the first year we have reported our divisional performance by Surgical and Woundcare to reflect our core markets.



Our Routes to Market

AMS or Partner Sales Team

- All Surgical products are sold by our direct sales teams in Germany, the UK, Russia and the Czech Republic and through our global network of over 100 distributors in other parts of the world



AMS or Partner Sales Team

- OEM sales of finished products and bulk materials to our medical device partners
- Global advanced woundcare customer base
- Bulk foam sold to converters and packers
- ActivHeal® is predominantly sold through AMS in the UK and through distributors in other markets



Outcomes

Quality outcomes for patients

Value for payers

Solid financial position

Long-term growth and value for shareholders

Creating Effective Engagement with our Key Stakeholders (s.172)

AMS aims to sustainably grow its medical device and woundcare businesses organically and via acquisition – focusing on customer satisfaction, productivity, innovation, business continuity and Health and Safety. We achieve this through the application of our values – Care, Fair, Dare – which ensures we value our employees and behave as good corporate citizens. To achieve this we maintain close relationships with our key stakeholders.

Engagement with our stakeholders is critical to the business. It helps us to appreciate the impact our decisions have on stakeholder interests and better understand their needs and concerns. It strengthens our relationship with them and is an ongoing part of the operational management and governance of the Group.

We have identified our key stakeholders below. We engage with our stakeholders in a number of ways. Details are provided in the Stakeholder Engagement section which can be found on pages 30 to 43.





Section 172 obligations

The UK Corporate Governance Code 2018 (Code) emphasises the importance of s.172 of the Companies Act 2006, which requires Directors to act in a way that promotes the success of the Company for the benefit of shareholders as a whole. In doing so s.172 requires the Directors to have regard to a number of matters including:

- The likely consequences of any decision in the long-term;
- The interests of the Group's employees;
- The need to foster the Group's business relationships with patients, suppliers, customers and others;
- The impact of the Group's operations on the community and the environment;
- The desirability of the Group maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the Company.

An overview of the Board's 2019 engagement with stakeholders who are material to the long-term success of the business is explained in the Engagement with Stakeholders section on pages 30 to 43.

In 2020 the Board will receive regular updates from the Executive Directors on how the business has engaged with stakeholders, the feedback received and the impact this has had on the Group's existing policies, processes and procedures. This will include an enhanced Health, Safety and Environment Report to support the Board's consideration of the impact of their decisions on our community and the environment. Board reports will include an assessment of the impact on our stakeholders.

Ensuring high standards of business conduct is also critical for the success of the Group. The Directors receive regular updates throughout the year on ethical and compliance issues and our Corporate Governance Report on pages 52 to 57 identifies policies and guidelines governing our approach to anti-corruption, anti-bribery, social matters and human rights.

Consideration of the long-term impact of decisions is integral to the approval of the strategy. Our strategic progress in 2019 is disclosed in the Chief Executive's Q&A on pages 9 to 11 and in the review of our Strategic Pillars on pages 12 and 13.

Chairman's Statement

The Board remains optimistic about our future growth prospects

“

The Board remains optimistic about AMS's future growth prospects from both an organic and acquisitive standpoint.”

Peter Allen
Chairman



Overview

Despite the challenges faced this year, we continue to progress as a world-leading, international provider of high quality, high value, innovative and technologically advanced products for the global surgical and advanced woundcare markets.

Strategy

During 2019 our strategy, which is built on our strategic pillars of Growth, Innovation, Operational Excellence and Culture, has been further embedded to help us manage the challenges of changing market dynamics. We continue to provide high quality products with benefits to both patients and payers.

Our acquisition of Sealantis added significant growth potential in the internal sealants market and underlined our strategic commitment to innovation. The acquisition of Biomatlante provides complementary technologies to strengthen our product portfolio, market access and R&D pipeline.

We believe we can continue to deliver on our strategic pillars by driving the organic growth of our product range, maximising the synergies presented by acquisitions, seizing on opportunities in the market created by the introduction of the Medical Device Regulation (MDR), which has been delayed until 2021, and continuing to consider further acquisitions that meet our strategic criteria.

We are managing the impact of COVID-19, with the priority on the safety, health and wellbeing of our employees and supplying our customers as far as feasibly possible. We aim to be in the best possible financial and operational position to return to strong growth when the Group's end markets recover to a normal basis.

Corporate Governance

We remain committed to high standards of corporate governance, choosing to comply with the UK Corporate Governance Code. The Board believe that these high standards facilitate the delivery of our strategy and drive the generation of shareholder value, helping to safeguard their interests. Details of how we engage with our key stakeholders are outlined in the Engagement with Stakeholders section.

We are embedding the section 172 principles at both Senior Management Team (SMT) and Board level, and have a robust framework of systems and controls throughout the Company.

Board Changes and Succession Planning

We have a well-established and mature Board which has successfully overseen the growth of the Group over recent years. Despite the benefits this brings, we are aware of the tenure requirements for our Non-Executive Directors and Chairman and the importance of succession planning. We have initiated plans to refresh the Board and this process will start with Peter Steinmann retiring from the Board at the AGM this year.

Dividend

The Board is proposing a final dividend of 1.05p per share, to be paid on 19 June 2020 to shareholders on the register at the close of business on 29 May 2020. This follows the interim dividend of 0.50p per share paid on 25 October 2019 and would, if approved, make a total dividend for the year of 1.55p per share (2018: 1.32p), an increase of 17%.

In light of the COVID-19 pandemic, we reviewed our decision to propose a final dividend in 2020 and decided to maintain it, given our financial health and the medium to long-term prospects of the Group.

Recognition and thanks

On behalf of the Board, I would like to thank all of our employees for their dedication and hard work during the past year. I would also like to thank our customers, suppliers, business partners and shareholders for their continued support in helping AMS achieve its goals.

AMS is well positioned to take advantage of market opportunities across our product portfolio and invest in both internal and external opportunities in line with the Group's long-term strategy and growth objectives.

Peter Allen
Chairman

7 May 2020

Chief Executive's Q&A

Despite the setbacks I am pleased with the overall performance of the Group

“

Our strong pipeline of R&D innovation further expands our addressable market and has never been stronger. We continue to be optimistic about our growth prospects in the growing global healthcare market.”

Chris Meredith

Chief Executive Officer



Q How has the Group performed during 2019?

A Whilst 2019 proved a challenging year for the Group, with the previously reported downturn of US LiquiBand® and a third-party sterilisation failure at the end of 2019, which was resolved in early 2020, I am pleased to report that good growth in other areas of the business enabled the Group to deliver revenues of £102.4 million, in line with 2018.

Adjusted profit before tax decreased by 7% to £26.6 million due to our operational investment in Sealantis, adverse sales mix and currency contracts. This contributed to a decrease of 8% in adjusted diluted earnings per share.

We have made progress on the two key product approvals needed to support the recovery of LiquiBand® in the US. LiquiBand® Rapid™ was recently approved by the FDA and the LiquiBand® XL clinical pilot study was concluded prior to the end of Q1 2020.

As previously stated, Surgical Business Unit sales were restricted by US LiquiBand® performance, resulting in a 1% decrease in revenue to £56.5 million and by 2% at constant currency¹. Our Woundcare business grew 1% to £45.8 million but was flat at constant currency¹. We strengthened our woundcare portfolio in the year with US approvals for our antimicrobial PHMB foam and silver high-performance dressings, both of which were signed to partners and launched to the market in Q4 2019.

The acquisition of Biomatlante demonstrates our strategy of utilising our strong cash position to acquire businesses with complementary products, exciting technologies and new routes to market and the acquisitions of Sealantis and Biomatlante demonstrates our willingness to invest in key markets to deliver longer-term growth opportunities.

2019 was a challenging year and despite the difficulties we faced, I am pleased with the overall performance of the Group, other than for US LiquiBand® sales which were disappointing.

We look forward to regaining positive momentum in our US LiquiBand® business given the recent approval of LiquiBand® Rapid™ and anticipated approval of LiquiBand® XL.

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

Chief Executive's Q&A

continued

Q How has the market changed during the year?

A Favourable global healthcare and demographic trends are likely to continue to drive growth in our large global surgical and advanced woundcare markets in the longer-term, both of which provide AMS with significant opportunities.

In recent years, the advanced woundcare market has reported lower market growth rates as well as increased price pressure and ongoing reviews of reimbursement levels in various European countries, all of which will create headwinds for our Woundcare Business Unit.

We have increased the size of our addressable surgical market with our two acquisitions in 2019. Commercialisation of Sealantis is expected in 2021 and this will open up the US\$1 billion internal sealants market. Biomatlante provides innovative complementary products and immediate access to the US\$0.5 billion synthetic bone substitutes market.

In addition, we are starting to see opportunities due to competitor product withdrawals in our surgical and woundcare markets as a result of the more stringent regulatory environment. We are confident of long-term growth as we continue to expand our product portfolio, enter new geographies and increase our share in each market.

Q How has the year been strategically and how will this impact the year ahead?

A Our strategy continues to be based on four pillars: Growth, Innovation, Operational Excellence and Culture.

Growth

Our growth strategy is to harness the opportunities from our multiple routes to market across multiple geographies with products that add value to patients and payers through delivery of equal or better clinical performance without compromising care or outcomes. We continue to increase our investment in major R&D and regulatory projects to enable future growth opportunities.

Innovation

For innovation, we continue to strengthen our portfolio by developing or acquiring high-quality products that allow us or our partners to make market share gains in high value segments.

Operational Excellence

Our operational strategy is centred around the needs of our customers and aims to reduce operating costs and operational risk whilst increasing capacity. This will allow us to continue to drive out cost and improve margins.

Culture

We operate to the highest ethical standards with our values of Care, Fair, Dare embedded in all we do.

- Caring about the work we undertake and the real-life differences we can make;
- Acting with integrity and ensuring we are fair in all aspects of business; and
- Moving boundaries and challenging constructively to build on others' ideas.

Q What do AMS expect to be the benefits of the acquisitions made in 2019 and how do these fit with AMS's strategy?

A The acquisition of Sealantis has provided an important pipeline of significant products, intellectual property, a strong R&D team and access to markets in which we have not previously operated. The internal sealants market is large (US\$1 billion) and growing and Sealantis has developed a range of products that reduce leakage of blood or fluid following gastrointestinal surgery. Integration has now been successfully completed, and the project team are currently engaging with regulators as we prepare clinical trials, with first commercial product launches planned for 2021. We expect to record a low level of sales to Key Opinion Leaders in 2020.

The acquisition of Biomatlante enhances our product offering and market access into orthopaedic, spinal, dental and sports surgery. It has a range of innovative, revenue-generating biomaterial products including, MBCP®, a biphasic calcium phosphate synthetic bone substitute which has a unique micro and macroporous structure that most closely resembles the architecture of natural human bone. The technology is supported by more than 650 published studies and 30 years of clinical experience, which validate its superior performance in comparison to competitor products. The Group expects Biomatlante to be earnings enhancing in 2020. Integration is progressing well and the potential for further commercial synergies has been confirmed in post-completion commercial reviews.

Bringing in high-quality people and products to our Group is a crucial part of our strategy and we are working with the existing management in both acquired businesses to maximise their potential in the coming years.

The Group continues to actively seek acquisitions that deliver value for shareholders and which meet our criteria of being:

- Products or technologies that enable us to leverage our woundcare customer base or surgical routes to market, or
- Surgically focused companies with product synergies, strong R&D capability and ownership of their own products.

We have an internal team working to identify, appraise and progress acquisition opportunities and continue to explore options to accelerate growth through select targets.

Q How have regulatory challenges in 2019 affected AMS and how is the Group prepared for the future?

A The transition phase of MDR runs until May 2024. MDR stipulates stricter requirements for product safety and performance, clinical evaluation and post-market clinical evidence. In the past eighteen months, the Group has successfully completed the recertification of the RESORBA® ranges, the LiquiBand® portfolio, and all of our significant woundcare products providing extended time to implement MDR. This demonstrates our capability to navigate the increasingly challenging regulatory framework as part of our robust Group-wide regulatory plan. During the MDR transition period, the Group expects to continue to incur an increasing level of costs associated with regulatory activity.

The Group is beginning to see opportunities arising from the impact of the MDR and, given our extensive preparations, we remain confident in our ability to exploit them. To support future geographic growth, our regulatory teams added more than one hundred new international registrations for our surgical and woundcare products in the year, across Latin America, the Middle East, the Far East and Australasia.

During the year, we successfully transitioned to MDSAP (Medical Device Single Audit Program) and, following audits at each of our sites, our certificates were received in the second half of 2019.

Q How is AMS prepared for Brexit?

A The Group is well prepared for the anticipated end of the Brexit transition period on 31 December 2020. UK product certificates have been reassigned to BSI Netherlands so that our products retain their EU approval, Advanced Medical Solutions BV has been appointed as our EU Authorised Representative and we will continue to hold increased inventory levels on all sites. Under WTO rules, there would be no duty on our finished goods and steps are in place to mitigate any additional duty costs on raw material.

Q How have you engaged with your stakeholders?

A We outline how we engage with our Stakeholders on pages 30 to 43. They were identified as; Our Investors, Our Employees, Our Communities, Our Patients, Partners and Clinicians, Our Supply Chain and Our Regulators. We continue to be grateful for the support and hard work of our committed staff, partners and other stakeholders.

Q What is your key message for the year ahead?

A The Group expected, prior to the COVID-19 pandemic, to deliver more than 10% revenue growth in 2020 driven by new product launches, strong underlying demand for our surgical portfolio, cross-selling of existing products and/or entering new markets, and opportunities arising from the transition to MDR. US LiquiBand® was expected to return to growth in 2020 given the recent approval of LiquiBand® Rapid™ and the anticipated approval of LiquiBand® XL which is expected in H2. Notwithstanding that, we see the low reported market growth and increasing reimbursement challenges as potential headwinds for our Woundcare Business Unit, which will also be impacted by uneven ordering patterns associated with Brexit and COVID-19. Operationally, the business is in robust strength, our recent acquisitions are providing new market and product opportunities and the Board remains optimistic about AMS's future growth prospects from both an organic and acquisitive standpoint.

Q How do you plan to respond to the risk presented by COVID-19?

A In response to the ongoing outbreak of COVID-19 the Group has set-up a designated team to closely monitor and risk assess its supply chain. The Group has also assessed the risks for its employees and has reiterated published guidance such as good personal hygiene practices and social distancing. AMS issued guidance to the market on COVID-19 in April 2020.

All AMS sites are currently in operation and meeting the Group's commitments to maintain supply of its medical devices to healthcare partners and customers worldwide. However, the Group is now experiencing a slowdown in demand caused by the cancellation or postponement of elective surgeries and a reduction in accident and emergency treatment as a result of the global lockdowns.

Clinical activities and new customer evaluations in both Business Units have also been temporarily impeded by the pandemic, and we envisage some potential supply disruption across the Group in the coming months. We are unable to predict the eventual financial impact for AMS, as it will depend on how long pandemic control procedures are in operation and how quickly thereafter the global markets in which the Group operates can recover. The Group currently estimates that its annual revenues will be impacted by approximately 3% to 5% for each month the widespread restrictions remain in place.

Our forward-looking financial guidance is constantly being reviewed in light of the situation and further guidance on the pandemic will be provided if required.

Our Strategic Pillars

Our core focus areas for ongoing success

To sustainably grow our medical device and woundcare businesses organically and via acquisition, and increase customer satisfaction by focusing on productivity, innovation, businesses continuity and Health and Safety. We do this by living our Company culture through our Care, Fair, Dare values, valuing our employees and being good corporate citizens.

Growth

Our growth strategy is to exploit opportunities from multiple routes to market across multiple geographies with our diverse portfolio of innovative surgical and woundcare products, which add value to patients and payors and deliver equal or better clinical performance.

How we are going to achieve it

- **Market share gains:** Continue to increase the market share of our key products, particularly in large markets like the US, by demonstrating a strong combination of high-quality products delivering improved performance and value for money versus competitors.
- **New products:** Develop new products in line with our core strategic areas and deliver at least two new product launches each year.
- **New markets/entry:** Achieve product approvals in new geographies and open up opportunities and market partners. Leverage our Regulatory expertise to take advantage of higher barriers to entry to new products and markets and maximise opportunities arising from competitor products not being renewed in specific markets.
- **Leverage acquisition synergies:** Integrate and benefit from the recent Sealantis and Biomatlante acquisitions by exploiting R&D, commercial, regulatory and back-office synergies.
- **M&A:** Identify targets and deliver acquisitions with breakthrough innovations. These should provide technologies to leverage the Woundcare customer base or surgical routes to market or surgically focused companies with strong product synergies.

What we have achieved in the year

- Continued strong growth of LiquiBandFix8®, aided by the launch of Fix8® Open and regaining a Ventral Hernia Claim.
- Initiated enrolment of our US Fix8® IDE and have multiple sites involved with increasing patient enrolment.
- Strong LiquiBand® Exceed Mini sales since launch. Rapid adoption with minimal cannibalisation, particularly in the US Alternate Sites market.
- Biosurgical growing strongly. Continued global registrations (LATAM/Asia). Antimicrobial Collagen dressing further penetrating the EU market.
- Strong growth of Sutures within a mature market, driven by the German market and continued niche market expansion globally.
- Continued growth and expansion of our Surgical Business into Emerging Markets (Asia/LATAM).
- Launched patented Silver High Performance Dressing and our premium PHMB foam range with silicone adhesive into the US.
- Acquisitions of Sealantis (internal sealants) and Biomatlante (biological products) to expand R&D capabilities and product range.

How we are measuring success

- Revenue growth at constant currency (%)
- Adjusted diluted earnings per share growth (%)

See pages 16 and 17 for our KPI performance

Innovation

We aim to continue to strengthen our portfolio by developing or acquiring high-quality products that allow us or our partners to make market share gains in high value segments. We invest in hiring and developing talent capable of delivering innovation for the business.

How we are going to achieve it

- **Expert Key Opinion Leader Panels:** Establish Key Opinion Leader panels to provide expert input into the innovation process and exchange information to ensure our innovation output meets clinical needs.
- **University linkage:** Partner with universities to drive innovation and exchange ideas, knowledge and resources.
- **Centres of Excellence:** Establish Centres of Excellence for Innovation and ensure resources and ideas from across the Group are better utilised.
- **Investment in innovation (People and Processes):** More centralised resources from across the Group to drive innovation. Streamline processes to maximise output from innovation resources. Ensure that best practice and standard processes are implemented across the Group. Increase spend on R&D aligned to increased output of innovation projects. Utilise knowledge and implement learnings from acquisitions.

What we have achieved in the year

- Gained further experience and insight into better R&D practices and testing that will allow us to meet and achieve product launches in an increasingly difficult regulatory environment.
- Achieved recertification for our RESORBA®, LiquiBand® and Woundcare ranges and passed numerous FDA and Notified Body audits across multiple manufacturing sites.
- Submitted and awaiting CE approval for VancoColl antimicrobial collagen, offering higher potency antibiotic to the European market.
- Further established our KOL network and initiated multiple clinical studies and case studies.
- Successful acquisition of Sealantis and Biomatlante.
- Held more than 20 masterclasses, symposiums and training workshops to educate and solicit feedback and encourage surgeon to surgeon discussions about our products and technologies.

How we are measuring success

- % of revenue spend on R&D & Innovation
- % of sales from new products launched in the previous five years

See pages 16 and 17 for our KPI performance

Key to strategic linkage in this report

Growth

Innovation

Operational
Excellence

Culture

Operational Excellence

Through a strategy that begins with focusing on what our customers need and value, we will drive a culture of engagement and continuous improvement that will enable lower operational risk, lower operating costs, and increased revenues. This will allow us to continue to drive out cost and increase margin.

How we are going to achieve it

- **Continuous improvement:** Establish strong foundations and implement a culture of Continuous Improvement deploying an appropriate balance of Lean and Six Sigma techniques across all areas of AMS.
- **Investment:** Invest in organisation and capabilities/systems that will support future growth and develop our people.
- **Customer satisfaction/OTIF:** Improve customer satisfaction and productivity.
- **Plan for Success:** Design and deliver an optimal manufacturing footprint strategy to support future growth and optimise our supply chain.
- **Compliance:** Increase Quality and Regulatory capabilities to allow us to meet the ever-increasing requirements across the world which are being driven by stricter standards, including the Medical Device Regulation (MDR).

What we have achieved in the year

- Established a PMO (Project Management Office) to improve our project management capability across AMS.
- Invested in technology and capacity across both Surgical and Woundcare.
- Software selection and initial deployment of an eQMS (Electronic Quality Management System) and forecasting tools.
- Invested in continuous improvement resources and value stream mapping tools.
- Delivery of gross 2% cost reduction projects across the sites and plans to deliver 4% in 2020.
- Good progress in readiness of the changing regulatory environment which is being driven by MDR.
- Successful transition to MDSAP accreditation across all sites.
- Developed operational capabilities in Israel to support the integration of our Sealantis acquisition.
- Reduced our safety related injury rate by 25%.

How we are measuring success

- Customer Service (OTIF – On Time in Full) (%)
- Year-over-year change of our standard cost base (%)

See pages 16 and 17 for our KPI performance

Culture

Our employees drive the success of AMS. We actively promote our Care, Fair, Dare culture and measure our employees' engagement in our Culture. We encourage internal promotion of employees on a global basis and have invested in apprenticeship programmes to build future talent for our business.

How we are going to achieve it

We achieve a positive culture in our business by focusing on Care, Fair, Dare and implementing our five-point plan:

- **Talent Attraction:** Our business requires highly skilled teams to bring innovative products to market ahead of our competition. We are committed to attracting the right talent with the correct remuneration and benefits, and to having a diverse workforce.
- **Talent Management:** Developing and retaining talent allows us to build skills to maintain an innovations culture and retain knowledge within our business.
- **Values and Behaviours:** Care, Fair, Dare provides a cultural framework to nurture how we interact and achieve success as a team.
- **Open Communication:** Listening to all views, taking feedback and pro-actively providing information to allow us to remain agile and customer-centric.
- **Health and Safety:** maintaining the highest levels of health and safety within our business ensures employees feel safe and secure within the working environment.

What we have achieved in the year

- Enhanced our Talent Review process to standardise it across business areas and build talent plans that align with our five-year business plans.
- Developed a Quality and R&D Career path to nurture talent in this vital area, building on the Regulatory career path we created in 2019.
- Worked on implementing Care, Fair, Dare action plans in teams and held review workshops.
- Rolled out standard recruitment training – including competency based questions ensuring we recruit to our Care, Fair, Dare values and training all managers in unconscious bias in recruitment.
- Re-launched our reward and recognition process to ensure a clear link to living our Care, Fair, Dare values.
- Integrated our values with the values of Sealantis through collaborative workshops to ensure maximum buy-in and achieve better cultural alignment between the businesses.
- Developed a strategic, Group-wide annual training plan, to ensure training investment is aligned to business priorities.
- Developed a Group Environmental Plan with targets listed in our Group Environmental Policy.

How we are measuring success

- Staff Retention/Turnover (%)
- Employee Engagement Score (%)

See pages 16 and 17 for our KPI performance

Major R&D Investments

Investment in R&D in 2019

We have made unprecedented levels of investment in pre-commercialised projects in 2019 as outlined below. We believe that this investment, which is directly related to acquisitions, research and development, regulatory and clinical activity, will establish a bedrock for future growth. We expect to start seeing payback from late 2020. During 2019 we:

- Acquired Sealantis to strengthen our internal sealants R&D pipeline
- Acquired Biomatlante to strengthen our biosurgical portfolio and enter us into the synthetic bone substitutes market with a differentiated product
- Broadened and diversified our portfolio of innovative internally developed products

Investment in major projects

LiquiBandFix8® US PMA

- Investment £3m
- Market opportunity £200m

We received the US Investigational Device Exemption (IDE) for laparoscopic Fix8® which allowed us to start the clinical trial to support our premarket approval (PMA). The clinical trial is progressing well in terms of surgeon feedback on the product and its performance. Patient recruitment was initially slower than anticipated. We have increased the number of clinical sites and investigators at the sites, and prior to the COVID-19 pandemic, we expected to complete all procedures by the end of 2020 and to file for FDA approval in H2 2021. Patient recruitment is temporarily on hold whilst lockdown is in place. We continue to be excited about the long-term prospects for the LiquiBandFix8® portfolio and entry into the US will be a significant landmark for the Group.

Sealantis

- Investment £8m
- Market opportunity US\$1bn

Sealantis has developed a range of products that reduce leakage of blood or fluid following gastrointestinal surgery. We are working on navigating the regulatory environment and product design enhancements to maximise commercial success. We expect:

- Soft launch to Key Opinion Leaders in H2 2020
- 150 patient study across three major markets in H2 2020
- Commercial product launch planned for 2021
- Larger pivotal study to support FDA approval to start in H2 2021

Medical Device Regulation (MDR)

- Investment £3.5m
- Market retention £3bn; growth opportunities

MDR stipulates stricter requirements for product safety and performance, clinical evaluation, and postmarket clinical evidence. The Group has successfully completed recertification of the RESORBA® ranges, the LiquiBand® portfolio, and all of our significant woundcare products, providing extended time to implement MDR during the transition period until 2024.

Opportunities are arising from the impact of MDR, which we are confident of exploiting. To support future geographic growth, we added more than 100 new international registrations for our surgical and woundcare products in the year, across Latin America, the Middle East, the Far East and Australasia.

Collagen pouch

- Investment c. £1m
- Market opportunity >£500m

Our antibiotic collagen pouch for cardiovascular devices, which is currently sold under prescription in Germany, is scheduled for an FDA review meeting in Q2 2020 to finalise the product indications and regulatory pathway for 510(k) approval in the US.

Silver High Performance Dressing

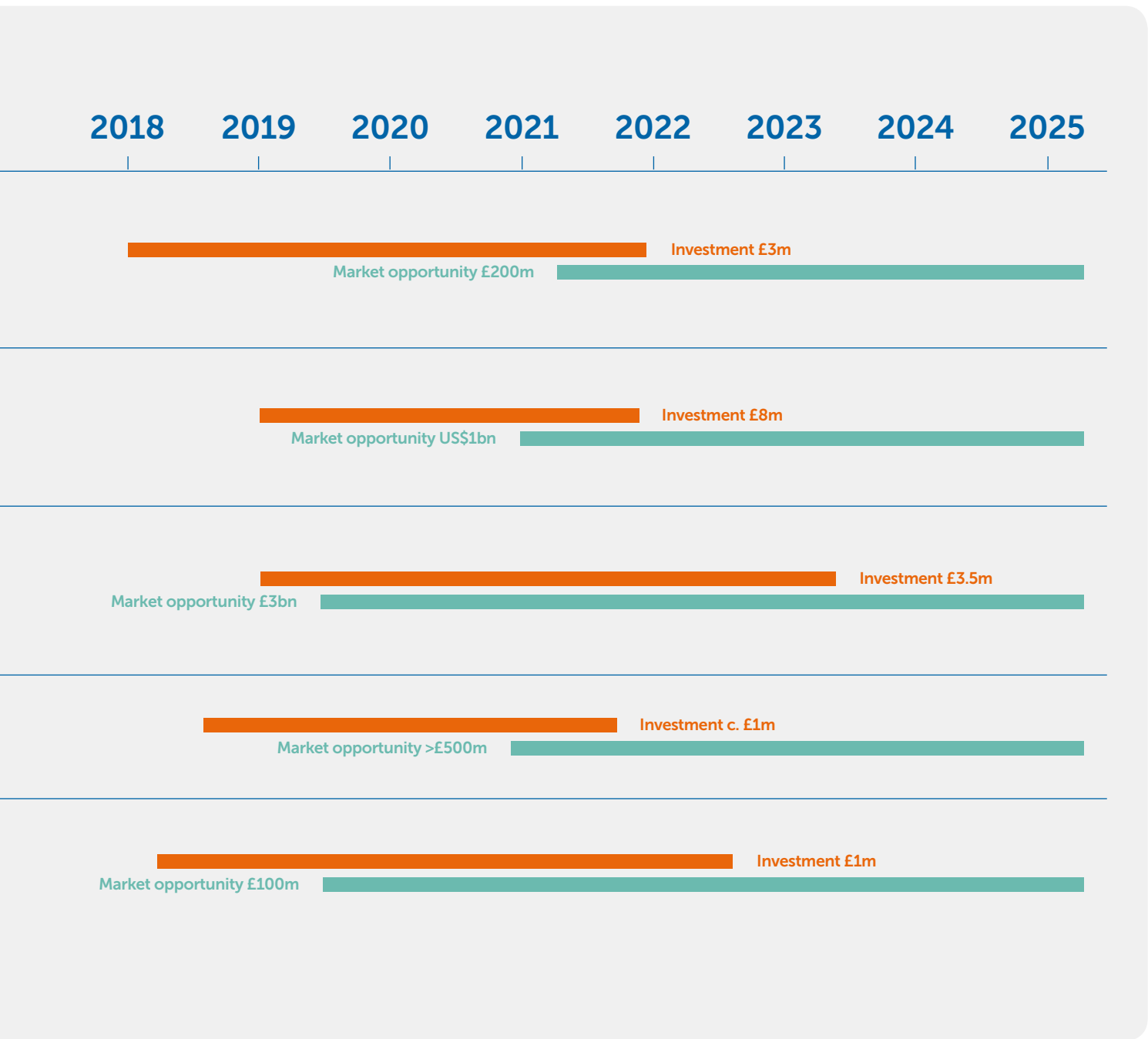
- Investment £1m
- Market opportunity £100m

Silver High Performance Dressing, our next generation antimicrobial gelling fibre technology with excellent performance and patent-protected construction, received US approval in the second half of 2019 and has been signed up by a number of our US partners with launch orders expected to ship in the first half of 2020. We intend to move forward with EU approval in 2020.

Investment in major projects – Markets and key information

The below analysis focuses on five key areas from 2019:

<p>LiquiBandFix8® PMA Investment in preparation to enter significant markets; £100m US laparoscopic mesh fixation market and £100m US open surgery mesh fixation market.</p>	<p>Sealantis Entry into the \$1bn market for internal sealants.</p>	<p>Medical Device Regulation (MDR) Increased costs for regulatory activities. Maintain access to all EU markets. Further opportunities expected in future.</p>	<p>Collagen Pouch New single competitor market for pacemaker surgery; initially the USA only.</p>	<p>Silver High Performance Dressing Access to clear gelling wound dressings market; US approved 2019, EU approval is being worked through by the Notified Body.</p>
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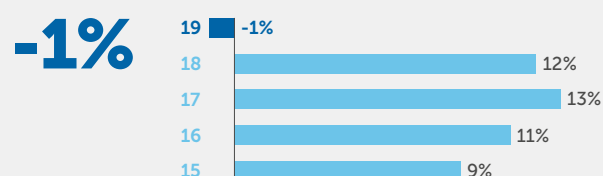
Our Key Performance Indicators

Measuring success

The Group has a range of Key Performance Indicators (KPIs) which are used to monitor Group performance and measure progress against our strategy.

Financial KPIs

Revenue movement at constant currency¹ %



Definition

Net revenue adjusted for constant currency¹.

Strategic linkage ■ ■ ■

Continued growth in revenue demonstrates the successful execution of the Group's strategy. It is a contributing factor to our aim of providing long-term value for our shareholders.

Progress made in the year

Revenue was flat in 2019 at £102.4 million (2018: £102.6 million) and decreased by 1% on a constant currency basis. Supported by new product approvals and the Biomatlante acquisition, the Group expects to deliver more than 10% revenue growth once our markets have recovered from the COVID-19 pandemic.

% of revenue spend on R&D & Innovation



Definition

Spend on R&D & Innovation as a % of sales in the financial year.

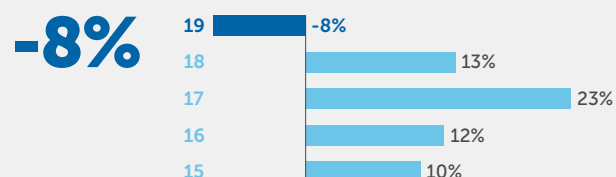
Strategic linkage ■ ■ ■ ■

As a developer of innovative and technologically advanced products investing resources in this area is critical to fulfilling the strategic goals of the business.

Progress made in the year

Spend increased by 9% (50bps) in 2019 to 6.3% of revenue (2018: 5.8% of revenue). As highlighted by our acquisition of Sealantis and strategic goals related to Innovation, we expect to continue to increase our spend in this area during 2020.

Adjusted² diluted earnings per share (EPS) movement %



Definition

Movement in adjusted² diluted EPS achieved in the year.

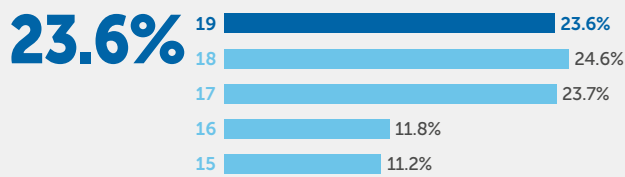
Strategic linkage ■ ■ ■ ■

EPS is a measure of corporate profitability and the Group's financial progress. It is also an important factor to our aim of providing value for our shareholders.

Progress made in the year

Adjusted diluted EPS was 9.83p in 2019 (2018: 10.63p), impacted by operational investment in Sealantis, adverse sales mix and currency contracts.

% of sales from new products launched in the previous five years



Definition

This is a measure of the % of sales the Group is generating from products launched in the five years prior to that year.

Strategic linkage ■ ■ ■ ■

As a Group focused on innovation with a number of patented products and technologies, this is an important measure of the success of our innovation programme, a stated strategic aim.

Progress made in the year

23.6% of 2019 sales were from new products (2018: 24.6%). We expect this to accelerate in 2020 due to our strong product pipeline, planned launches of LiquiBand® Rapid™ and LiquiBand® XL in 2020, and as our recent product launches become established in the market.

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

² All items are shown before exceptional items which were £1.1 million (2018: £0.4m) and amortisation of acquired intangible assets which were £1.7m million (2018: £0.1 million) and change in fair value of long-term debt £0.3 million (2018: Nil), as defined in the Financial Review. Adjusted operating margin is shown before exceptional items and amortisation of acquired intangible assets.

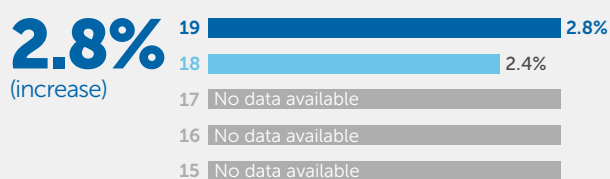
Key to strategic linkage in this report

Growth

Innovation

Operational
Excellence

Culture

Year-over-year change of our average standard cost³ %

Definition

Measures the reduction in standard cost base³ against prior year.

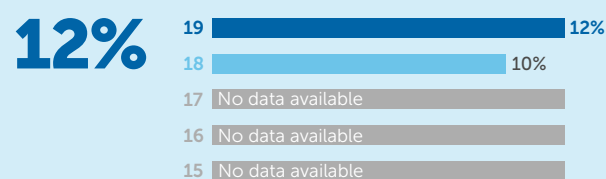
Strategic linkage

Continued improvements in cost reduction demonstrate the successful execution of our strategy and are important for the sustainability of the Group.

Progress made in the year

The standard cost base increased by 2.8% in 2019 (2018: 2.4%) as cost improvement activities were outweighed by inflationary factors. The target in 2020 is a 2% reduction, with a further reduction of 4% in 2021. Our Chief Operations Officer is focused on driving the achievement of this target.

Staff retention/turnover %



Definition

The % of staff who have left the Group during the year (gross number of leavers).

Strategic linkage

Low levels of staff turnover are critical for the future success of the business. Low levels of turnover increase employee engagement and the embedding of the Care, Fair, Dare culture.

However, an element of turnover is considered beneficial, to support new ideas and best practices from outside the Group.

Progress made in the year

Staff turnover was 12% in 2019 (2018: 10%), which is lower than the national average of 15%. We consider this level of turnover to be beneficial to the business.

Non-Financial KPIs

Customer service (OTIF) %



Definition

On-Time in Full (OTIF) is a measure of whether we delivered on our commitment to provide excellent service to our customers.

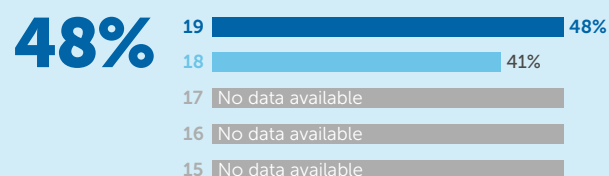
Strategic linkage

OTIF is important both in terms of contractual commitment and customer retention.

Progress made in the year

OTIF decreased to 80% (2018: 83%), impacted by temporary stock shortages during recertification of the RESORBA® portfolio and sterilisation delays. Actions are being taken to increase manufacturing capacity and to improve forecasting and planning processes. We expect OTIF to return to above 90% in 2020.

Employee Engagement Score %



Definition

Of the employees who responded to the Employee Survey, the % of employees who had seen positive action from the implementation of Care, Fair, Dare culture.

Strategic linkage

This % indicates how successfully we have embedded our culture. An increasing score indicates more engaged employees, leading to higher productivity and higher retention.

Progress made in the year

The engagement score in 2019 increased to 48% (2018: 41%). Whilst we are satisfied with the employee engagement score for 2019, we aim to increase this in 2020. Participation in the Employee Survey increased to 49% of employees across the Group in 2019 (2018: 38%).

³ Reduction in average standard cost of production assuming no change in product mix.

Our Acquisitions: Biomatlante

Biomatlante acquisition:

- Strengthen AMS's product portfolio
- Added an innovative R&D pipeline
- Increase market access in orthopaedic and dental
- Provides a range of revenue-generating surgical products and an R&D pipeline of complementary biosurgical technologies and offers significant growth potential in additional surgical markets estimated to be worth US\$0.5 billion. The acquisition is expected to be marginally earnings enhancing in the first full year of ownership
- Transaction completed in November 2019 for €8 million (approximately £7 million) in cash, with a potential further up to €0.3m due over the next two years
- Significant growth potential in the synthetic bone substitute surgical markets
- Part of AMS's growth strategy of acquisitions which have synergies with the AMS portfolio
- The addition of a talented dedicated team to AMS and an excellent cultural fit supports the smooth integration of the business.

Biomatlante at a glance

Biomatlante was founded in 1995 in Nantes, France.

Biomatlante specialises in producing synthetic biomaterials for bone regeneration and is a world leader in bone graft technologies, selling products in over 50 countries.

Biomatlante's products are routinely used in orthopaedics and trauma surgery as well as in spine, ENT, stomatology, and dental surgery.

Biomatlante is ready for the upcoming regulatory changes in Europe (MDR) and has a strong quality management system certified by multinational regulators including MDSAP certification, ISO 13485 and the US FDA.

Biomatlante has developed strong ties with many research institutions and established close collaboration with the key being INSERM and the Nantes University.

A summary of the key aspects of the Biomatlante business is outlined below.



Major players in Orthopaedics, Spine and Dental





This acquisition is in line with our strategy to acquire technologies that are complementary to our surgical portfolio and allow us to leverage our global routes to market. The acquisition grants AMS access to multiple new markets, including the synthetic bone substitutes market which is estimated at US\$0.5 billion. We are excited to welcome the Biomatlante team to AMS and look forward to working together with them to accelerate their commercial success internationally and to continue to develop the Biomatlante technology in a wide range of their potential applications and indications."

Chris Meredith, CEO of AMS

Technology & Products

Biomatlante commercialised products, include:

- **MBCP[®]** Synthetic bone substitutes: Syringes, Inserts and In'Oss[™] (MBCP[®] Putty – a Moldable Bone Graft Substitute)
- **EZ Cure[™]** Collagen membranes
- **Osteotwin[™]** Biocompatible Interference Resorbable Screw

MBCP[®] is a biphasic calcium phosphate synthetic bone graft substitute with a unique micro and, macro porous structure that most closely resembles the architecture of natural human bone. Soluble and resorbable: it gradually dissolves in the body, promoting new bone formation through the release of calcium and phosphate ions. In time, the porous structure becomes completely infiltrated with, and replaced by, healthy viable bone.

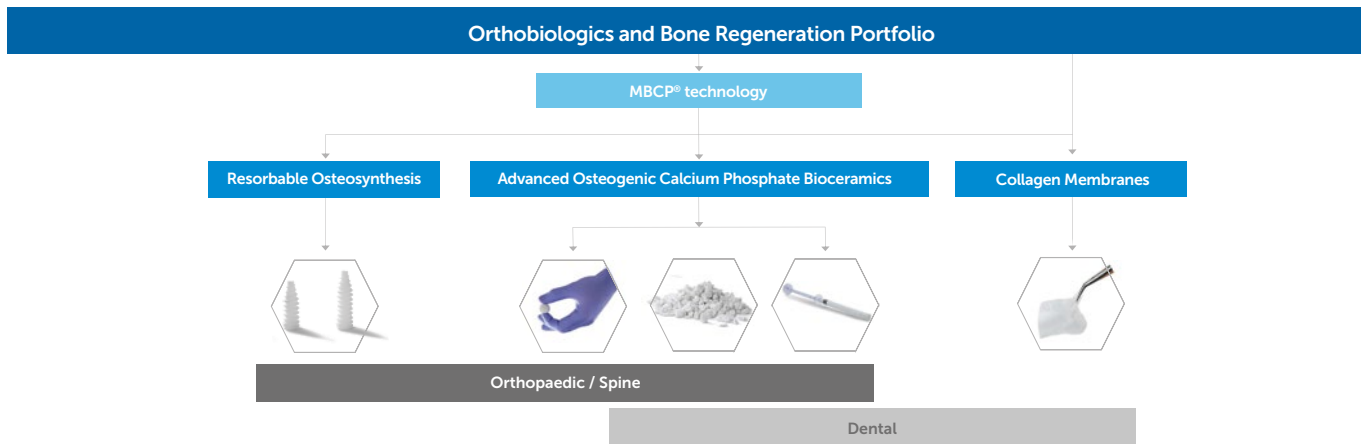
Biomatlante has an established orthobiologics and bone regeneration portfolio.

Synergies with AMS:

Biomatlante has multiple significant synergies with AMS, most notably in:

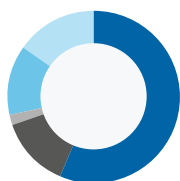
- Sales & Marketing
- R&D
- Regulatory
- Marketing
- Operational

The acquisition significantly strengthens the Group's product portfolio for the orthopaedic, spine and dental space, increases R&D capabilities in collagen and adds bone substitute capabilities to the Group, as well as operational capabilities and footprint in France.



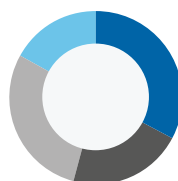
Breakdown of Sales

Geographical Distribution (%)



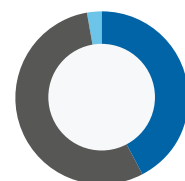
Europe APAC NAM MEA LATAM

Medical Fields (%)



Dental Spine Ortho Sport

Brand Distribution (%)



Biomatlante Semi-finished Private Brand

Our Surgical Products: Patient Benefits

Minimising complications and improving patient safety and comfort

LiquiBandFix8® is 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 provides accurate laparoscopic application of adhesive and reduces 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. The range was expanded in 2018 to include a LiquiBand FIX8® Device for atraumatic mesh fixation in Open inguinal hernia surgery (LiquiBandFix8® Open).

In 2019 we gained a Ventral claim for LiquiBandFix8® Open, which was major progress on indications. We also launched a pain campaign, driving the benefits of the Fix8® products.

Key advantages of LiquiBandFix8® and LiquiBandFix8® Open for patients, are outlined on these pages.



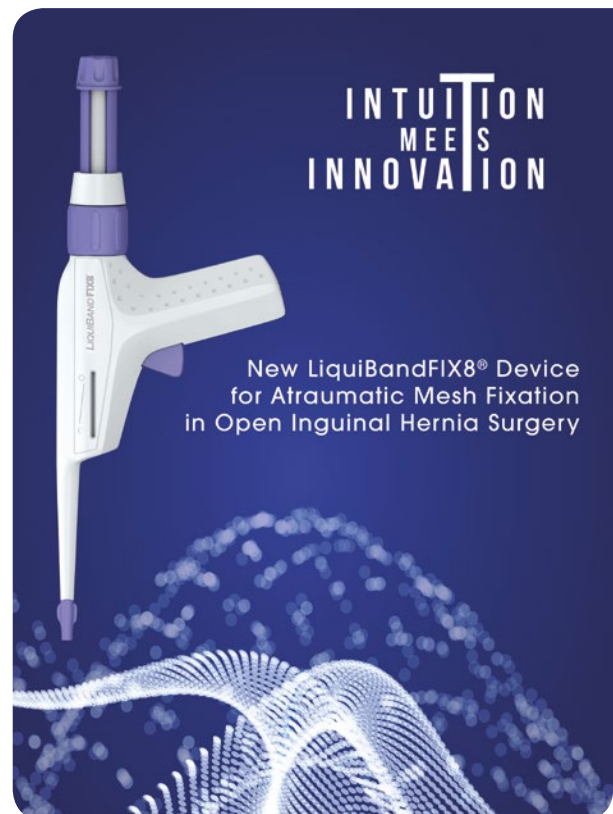
Top Right: LiquiBandFix8® laparoscopic
Right: LiquiBandFix8® Open

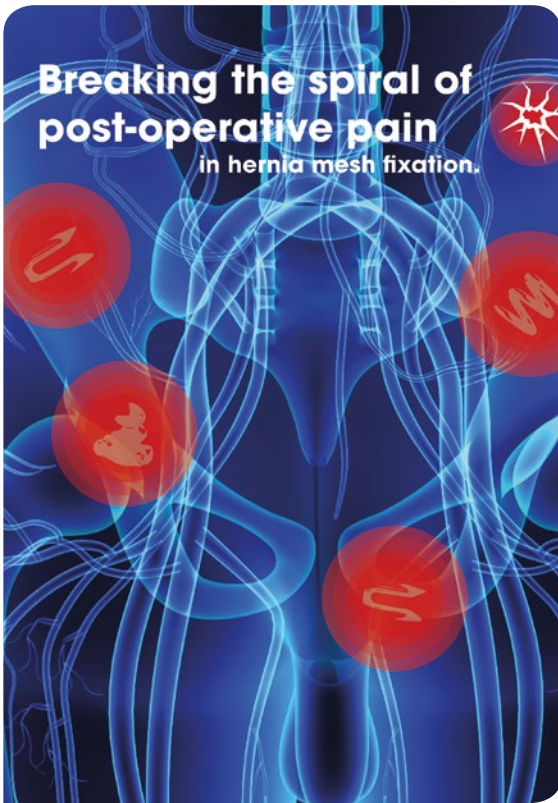
LiquiBandFix8® Open

LiquiBandFix8® Open provides the same atraumatic benefits in open procedures as mesh using the Lichtenstein technique. The unique dual tip atraumatic device is engineered for strong mesh fixation and wound closure in open inguinal hernia surgery, and provides numerous benefits:

- **Patient Comfort** – N-Butyl 2 cyanoacrylate adhesive is a good replacement for sutures in inguinal hernia repair leading to lesser post-operative complications and morbidities, a low exothermic reaction and a better quality of life.
- **Cost-Effectiveness** – Optimises cost due to less turnaround time which results in improved theatre output without compromising patient care.
- **Strong Fixation** – Offers high endurance against intra-abdominal pressure exerted by daily activities which may lead to mesh distortion.
- Drive is for a trauma-less hernia mesh fixation and to lead change to clinical standard of care.
- A study by Cochrane compared using glue against sutures/ Lichtenstein technique. The study found that fixing with cyanoacrylate saved 10.8 Minutes which equates to a 20% faster surgery and a significant reduction in perceived pain (a p value less than 0.05).
- Device has a removable tip for wound closure and mesh fixation which is designed to project liquid anchors drop-by-drop and a guarded aperture to prevent tip blockage.

LIQUIBANDFIX8®
OPEN HERNIA MESH FIXATION DEVICE





LiquiBandFix8® (laparoscopic) – The global leader in trauma-less hernia mesh fixation

LiquiBandFix8® seeks to lead a change to clinical standard of care. The goal is to increase patient safety and comfort through the use of LiquiBandFix8®. The device is the first cyanoacrylate hernia mesh fixation device that replicated the look, feel and application technique of the industry standard invasive tacking devices and provides numerous benefits:

- **Reduced patient trauma** – Provides surgeons with the ability to precisely deliver cyanoacrylate in single 0.125ml drops. This is significantly less traumatic than tacks in the abdominal wall
- **Improved patient recovery** – Quicker and more comfortable recovery due to use of mesh in preference to screws or tacks
- **Improved delivery with increased patient safety** – Surgeons are able to fix mesh more aggressively in intimate, higher risk areas where there would be a concern in using invasive tacks, for example near important vessels, tissues and cords, improving both the effectiveness and safety of the surgery
- **Reduced post-operative complications** – Innovative liquid anchors result in strong hernia mesh fixation, reducing the risk of some common post-operative complications such as: Neuralgia, Paresthesia and Mechanical Tissue Trauma

LIQUIBANDFIX8™ Together we can minimise pain.
Laparoscopic hernia mesh fixation device

Device delivers precision, which drives patient safety



Non-Sticking, Atraumatic Tip



Quantity Indicator

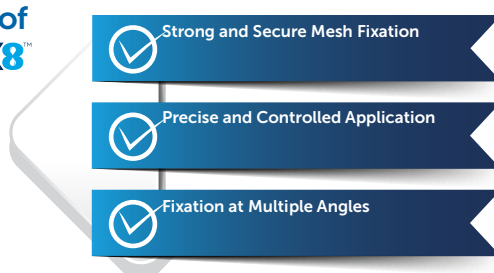


Controlled Delivery Trigger



Ergonomic Design

Advanced design of **LIQUIBANDFIX8™** offers accurate fixation and patient safety.



Case evidence of patient benefits

Two separate retrospective studies carried out by Mr Paul Wilson (Consultant General Surgeon – Royal Lancaster Infirmary) have demonstrated the safety and efficacy of the Fix8® laparoscopic device for inguinal and ventral hernia repair and provided evidence of lower levels of complications such as post-operative pain, recurrence and other adverse events. The 2016 inguinal hernia repair study included 200 patients with a 12 month follow up and the 2020 study, the first ever study for cyanoacrylate fixation of ventral hernia meshes, included 137 patients with a 24 month follow up period.

Our Business Units

Surgical

Overview

The Surgical Business Unit includes sales, marketing, research, development and innovation of our surgical products. It is engaged principally in delivering differentiated devices to surgeons to close and seal wounds and to reduce the incidence of various surgical complications.

“

With an exciting R&D pipeline, new products being added to the LiquiBand® range, regulatory approvals underway, and opportunities from the Sealantis and Biomatlante acquisitions, we are optimistic about our ability to continue to deliver meaningful benefits to patients across the world.”

Jeff Willis, Business Unit Director

Sales by product area

Surgical Business Unit	2019 £'000	2018 £'000	Reported Growth	Growth at constant currency
Advanced Closure	28,539	31,684	-10%	-11%
Traditional Closure	14,407	13,342	8%	27%
Biosurgical Devices	9,423	8,640	9%	9%
Internal Adhesive & Fixation	2,629	2,066	27%	10%
OEM Sealants	1,545	1,381	12%	12%
Total	56,544	57,113	-1%	-2%

Surgical revenue

£56.5m

Revenue decreased by 1% at reported currency and by 2% at constant currency. (2018: £57.1 million).



Advanced Closure

Advanced Closure consists of the LiquiBand® topical skin adhesives, incorporating medical cyanoacrylate adhesives in combination with purpose-built applicators used to close and protect a broad variety of surgical and traumatic wounds.

Growth

Revenue decreased by 10% to £28.5 million (2018: £31.7 million) and by 11% at constant currency despite strong growth in all territories except the US which was impacted by a combination of factors as previously reported:

- Destocking due to lost business with two large Group Purchasing Organisations.
- Slowdown in new evaluations due to not having a combined glue and tape device for large wound closure.
- Third-party sterilisation issue which was resolved in early 2020.

Innovation

LiquiBand® Rapid™ will be launched in Q2 2020. LiquiBand® XL, which finished its pilot study at the end of Q1 2020, will allow us to compete in the combined glue and tape device for closing larger wounds market. The successful product from the pilot study will enter a full study in May, which would keep us on track to file for a 510(k) by the end of Q2 2020.

Future

As the only supplier of both octyl and butyl chemistries and with continued formulation and claim expansions, AMS is well positioned to continue to innovate and gain global market share in Advanced Closure. Regaining market share in the US is a focus for 2020.

Traditional Closure

Traditional Closure consists of RESORBA® branded absorbable and non-absorbable sutures.

Growth

RESORBA® sutures delivered a record year of growth. Revenue increased by 8% to £14.4 million (2018: £13.3 million) and by 9% at constant currency. Growth was delivered in various European territories and the US.

Innovation

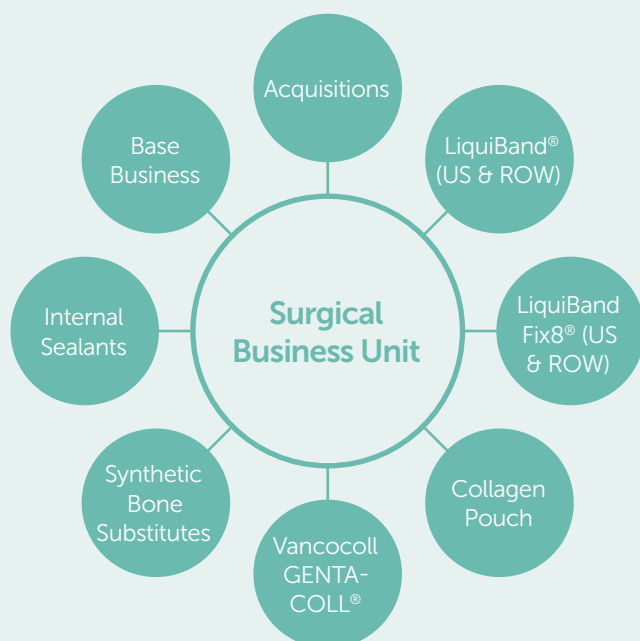
The sutures category is well established and AMS has a full range of products. Despite this, AMS continues to enhance the range and in 2019 launched a new absorbable thread material (PDO RESORBA®).

Expansion was planned into the orthopaedic suture space, which will be implemented in 2020 with the launch of OT-Cord, a coated high molecular weight suture.

Future

AMS will continue to explore targeted opportunities in this area and derive benefit by bundling with other products.

We will continue our full range focus in Germany, including commitment contracts with major German buying groups, and 'full house' suture account conversions. We hope to leverage speciality suture wins (and bundle with commitment contracts) and expand in locally distributed geographies (China, USA) and focal speciality areas (Dental).



Above: Surgical growth drivers

Strategy

Deploy our core skills in adhesives/sealants, applicator design, and biosurgicals to help surgeons achieve the best outcome for their patients. We will do this by investing in innovation and working with Key Opinion Leaders to deliver both new and improved products. We aim to:

- Continue to grow LiquiBand® by targeting larger accounts and Health Providers (US), engaging new distributors (EU) and developing the Asia Pacific and Latin American markets
- Launching product upgrades and new products into the market (LiquiBand Rapid® and LiquiBand XL in 2020)
- Expanding sales of LiquiBandFix8® into key territories including Asia Pacific and LATAM and continue to seek value added Hernia specialist partners in all regions
- Increase adoption of both Fix8®Lapro and Fix8®Open across Europe and key territories
- Expand use of biosurgical products across the EU and other territories using clinical evidence and industry groups
- Progress key regulatory approvals for antibiotic collagens
- Upgrade and develop suture range to drive sales in new and existing territories, leveraging the experience of speciality suture wins

Biosurgical Devices

Biosurgicals is principally composed of collagen-based materials including RESORBA® Gentacoll® Gentamycin Collagen products used in orthopaedic and cardiac applications, and Collagen fleeces and cones used in Dental applications.

Growth

Revenue increased by 9% to £9.4 million (2018: £8.6 million) and by 10% at constant currency, predominately driven by growth in Europe and Latin America, a number of new customers, notably in the Far East, and by Biomatlante revenue (£0.4 million) following its acquisition at the end of November.

Innovation

Our biosurgical portfolio has been significantly expanded by the acquisition of Biomatlante which has added synthetic bone substitutes, cross-linked collagen membranes and bioabsorbable screws to our existing biosurgical ranges.

Antibiotic loaded collagens providing local drug delivery is a key product development focus for AMS and we are working on development and regulatory activities for alternative antibiotics for orthopaedic and cardiac applications. We have submitted our CE mark application for collagen with vancomycin and approval is expected in H2 2020. Our antibiotic collagen pouch for cardiovascular devices, which is currently sold under prescription in Germany, is scheduled for an FDA review meeting in Q2 2020 to finalise the product indications and regulatory pathway for 510(k) approval.

Future

There are significant opportunities to expand dental and surgical use of RESORBA® biosurgical products across the EU. Biomatlante, and the launch of RESORBA® Bone initiatives, will enhance our footprint into the global orthobiologics market.

Internal Adhesion and Fixation

This category comprises LiquiBandFix8® devices, which are indicated for internal fixation of hernia meshes.

Growth

Revenue increased by 27% to £2.6 million (2018: £2.1 million) predominately driven by demand for the laparoscopic device.

Innovation

The open hernia mesh fixation device has received very positive surgeon feedback reinforcing our decision to access the global hernia market. In 2019, we added an indication for a ventral claim. We are building clinical evidence and a base of high-profile Key Opinion Leaders to create a platform for success in 2020. We are also exploring further configurations of the Fix8® technology platform.

Future

Internal surgery is a significant opportunity and, with the acquisition of Sealantis, we have multiple adhesive/sealant technologies to develop in combination with our applicator design expertise. AMS will also seek to optimise our channel strategy and continue to seek hernia speciality sales partnerships to maximise commercial gains.

OEM Sealants

Surgical sealants sold under partner brands. Revenue increased by 12% in 2019 to £1.5 million (2018: £1.4 million) partly due to partner ordering patterns.

Our Woundcare Products: Patient Benefits

Providing confidence for patients with security and protection

The Woundcare Business Unit has a strong, continuous new product pipeline targeting two new launches per annum, which was achieved in 2019. Progress has been focused on the infection management area, a cornerstone of our innovation pipeline.

There are multiple growth opportunities via range extensions and market expansions for the woundcare market.

2019 saw the launch of our Lite foam products range in the EU and further approvals in Brazil of our advanced woundcare portfolio. We anticipate further product range extensions in the next two years, including the development of next generation gelling fibres.

In 2019 we gained FDA approvals for two new products into the US which strengthened our infection control portfolio, and are designed to meet the needs of patients with wounds requiring dressings with additional performance benefits. These were a High Performance Dressing with Silver, which includes a patent protected quilting pattern, and an extension to our premium PHMB foam range with silicone adhesive, which continues to demonstrate enhanced performance. Both launches were positioned with major US partners. Key advantages of the new products for patients are outlined on these pages.

ActivHeal®



ActivHeal® range and benefits

- The Group is seeing strong progress from its initiative to exploit ActivHeal® opportunities in select overseas markets. We continue to navigate the approval process in multiple new markets including the Middle East and Latin America. This initiative has generated significant distribution partner interest and validates the decision to realign our Business Units at the start of 2019.
- **Range offers the best outcome for the patient**
ActivHeal® was developed to offer the NHS a more affordable clinically effective woundcare dressing range. It offers clinicians a simple, clear and cost-effective woundcare range whilst ensuring the best clinical outcome for the patient.
- **Support of expanded range and award-nominated clinician support**
We provide access to our ActivHeal® Academy, a multi-tiered woundcare education programme to support clinicians of all levels with easily accessible, online educational resources. This support for clinicians provides patients with the best possible outcome when ActivHeal® products are used. We are enhancing the portfolio of products for clinicians to utilise and are continually expanding the ActivHeal® range and in 2019 added Silicone Lite Foam.



Above: ActivHeal® product range



PHMB Silicone Border

– Next generation dressing containing the antimicrobial agent PHMB which kills and inhibits the growth of bacteria for chronic and post-surgical wounds.



Above: Silicone PHMB Border dressing

Key benefits of dressing

- **Patient reassurance** – When tested in vitro against MRSA, MRSE, and E. coli it achieved 99.9% eradication of these pathogens within 24 hours. This is faster than some silver foam dressings. It gives patients peace of mind that their wound is receiving the most appropriate dressing solution.
- **Maximum action of dressing** – As PHMB in the dressing works so quickly, it means even patients with heavily exuding wounds which require frequent dressing changes are getting the maximum benefit of the dressing's mode of action.
- **Reduction in pain** – Proven efficacy for up to 7 days. It manages both wound exudate and microbial contamination, reducing wound pain during healing and improving the patient's quality of life.
- **Minimises discomfort during replacement of dressing** – Dressing changes are stressful for patients with infected wounds. We developed PHMB silicone border to have gentle but secure adhesion, reducing this pain and making dressing changes easier.
- **Designed to minimise discomfort during use** – Dressing easily repositioned or lifted for wound observation. Excellent fluid handling capability means fewer dressing changes, benefiting both patients and healthcare professionals.

High Performance Dressing with Silver – Next-generation antimicrobial gelling fibre technology with excellent performance and patent-protected construction.



Above: High Performance Dressing technology

Key benefits of technology

- **Eradication of pathogens** – Good performance against bacteria and yeast, enabling effective treatment of a patient's wound. Silver content helps to effectively suppress colonisation and proliferation of bacteria and yeast within the dressing for up to 7 days.
- **Fewer dressing changes and reduction of wound maceration** – Unique quilting pattern provides better fluid handling capacity than other dressings. As a result, patients with heavily exuding wounds require fewer dressing changes, enhancing their quality of life. Its ability to lock in exudate and prevent the spread of wound fluid is key to reducing lateral wicking and minimising the risk of peri-wound maceration.
- **Easier dressing changes** – Best in class tensile strength increases confidence in removing dressing intact, a benefit for clinician and patient. The quilting pattern enabling this is protected by a design patent.
- **Maintains a moist environment ideal for wound healing** – Dressing forms a soft gel on contact with exudate, conforming to the wound and helping to maintain a moist wound environment, ideal for the promotion of moist wound healing.
- **Absorbency** – Demonstrates excellent absorbency of wound exudate.

Our Business Units

Woundcare

Overview

The Woundcare Business Unit is responsible for driving sales through our business to business partners, "direct sales", and third-party converters by supplying a comprehensive multi-product portfolio of advanced woundcare products. We partner with world-leading woundcare companies, developing innovative products with differentiated claims and providing regulatory and clinical support for our partners to distribute under their own brands. We also distribute the AMS branded ActivHeal® range, which is sold predominately to the NHS but increasingly through partners into other markets.



We are excited by the progress made in 2019 linked to product approvals in the infection management area, which are the cornerstones of our innovation pipeline."

Becky Walmsley,
Business Unit Director



Infection Management

The Infection Management category comprises advanced woundcare dressings that incorporate antimicrobials such as Silver and Polyhexamethylene Biguanide (PHMB).

Growth

Revenue increased by 4% to £20.6 million (2018: £19.7 million) and by 3% at constant currency with growth driven mainly by additional sales of PHMB dressings, including a number of new customers and the first shipment of our atraumatic PHMB foam dressing into the US following its approval in July 2019.

Innovation

Silver High Performance Dressing, our next generation antimicrobial gelling fibre technology with excellent performance and patent protection construction, received US approval in H2 2019 and has been signed up by a number of US partners with launch orders expected to ship in H1 2020.

Our Moisture Wicking Fabric with silver, indicated for use in the management of skin folds and skin-on-skin friction, was approved for the US and EU in the second half of 2019 and provides access to a new market, worth more than US\$25 million, with initial orders expected in the first half of 2020.

We have improved the design of our silver post-operative dressing which launched with a US partner in 2018 and we expect increased ordering from multiple partners in 2020.

Future

Looking forward, the Group is working on developing next generation high-gelling products with differentiated antibiofilm claims.

Exudate Management

The Exudate Management category comprises advanced woundcare dressings which do not incorporate any antimicrobial elements and includes the majority of our ActivHeal® range.

Growth

Revenue was impacted by one of our main partners significantly altering its inventory levels due to the risk of Brexit related supply disruption. This partner ordered significantly more than usual in Q4 2018 and H1 2019 followed by much lower demand in H2 2019. Revenue consequently declined by 6% to £19.3 million (2018: £20.4 million) and by 6% at constant currency.

Innovation

During the year we expanded our Lite Foam portfolio with a range of shapes and sizes for the acute post-surgery market, extended the claims on our silicone foam range to include pressure ulcer prevention (US) and gained a number of new customers in the EU and LATAM.

Future

There is strong progress from exploiting ActivHeal® opportunities in select overseas markets. We continue to navigate the approval process in multiple new markets including the Middle East and Latin America. This initiative has generated significant distribution partner interest and validates the decision to realign our Business Units at the start of 2019.

We are confident that the above actions, coupled with our ability to meet the demands of MDR, will continue to counteract the ongoing challenging market conditions in the advanced woundcare market.

Sales by product area

OEM Business Unit	2019 £'000	2018 £'000	Reported Growth	Growth at constant currency
Infection Management	20,555	19,744	4%	3%
Exudate Management	19,271	20,422	-6%	-6%
Other Woundcare	5,998	5,319	13%	9%
Total	45,824	45,485	1%	0%

Woundcare revenue

£45.8m

Revenue increased by 1% at reported currency and was in line with prior year at constant currency (2018: £45.5m)



Above: Woundcare growth drivers

Other Woundcare

Royalties, fee income, gels and sealants used in woundcare.

Growth

Revenue increased by 13% to £6.0 million (2018: £5.3 million) and by 9% at constant currency predominately due to increased Organogenesis royalties of £2.9 million (2018, impacted by lower reimbursement: £1.8 million).

Innovation

Our skin protection range of products has been expanded via a new five-year global supply agreement with a key partner. This next generation launch addresses the market need of products for patients affected by prolonged exposure to moisture.

Future

We will continue to evaluate the different ways our skin protection products can enhance the patient's quality of life and help with the wound healing process.

Strategy

To be the partner of choice for innovative, differentiated products enabling our customers to be successful through full design, development, manufacturing and distribution services supported by in-house regulatory, clinical and marketing professionals. To achieve this AMS will continue to:

- Expand the product portfolio via a multi-year innovative product development pipeline into growth segments, utilising close links to universities to enhance innovation
- Invest in our people to provide guidance to ensure compliance with the changing regulatory and clinical landscape, supporting expansion into new markets
- Gain product approvals by leveraging in-house expertise
- Expand into emerging markets with our partners
- Invest to enhance our reputation for high quality, customer service, regulatory and clinical support
- Gain access to end users and develop a network of Key Opinion Leaders (KOL)
- Ensure our intellectual property is safeguarded to protect our product portfolio

The Group maintains its solid balance sheet and continues to invest in future growth



Eddie Johnson
Chief Financial Officer

Summary

In 2019 the Group delivered reported revenue in-line with the prior year and a 1% decrease at constant currency. Profit before tax decreased by 14% due to investment in Sealantis, adverse sales mix, currency contracts and increased amortisation due to the acquisition of Sealantis at the start of the year.

To provide the clearest possible insight into our performance, the Group uses alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate. We use such measures consistently at the half year and full year and reconcile them as appropriate. The measures used in this statement include constant currency revenue growth, profit from operations, adjusted operating margin, adjusted profit before tax and adjusted net cash inflow from operating activities, allowing for the impacts of exchange rate volatility, exceptional items, amortisation and the change in fair value of long-term debt to be separately identified. Net cash is an additional non-GAAP measure used.

Administration costs were impacted by foreign exchange movements and increased by 3.7% to £34.6 million (2018: £33.3 million) excluding exceptional items. Foreign exchange movements, predominately driven by exchange rates on currency contracts increased administration costs by approximately £3 million with underlying administration costs lower than in 2018 as the Group controlled its discretionary administrative expenditure. The Group, however, continued to increase its investment in research and development including Sealantis and incurred £6.5 million of gross R&D, regulatory and clinical spend in the year (2018: £6.0 million), representing 6.3% of sales (2018: 5.8%).

Exceptional items of £1.1 million in the year (2018: £0.4 million) relate to the Sealantis and Biomatlante acquisitions as well as other business development activities.

Adjusted operating margin decreased by 180 bps to 26.4% (2018: 28.2%) and operating margin decreased by 410 bps to 23.7% (2018: 27.8%) due to lower US LiquiBand® sales, adverse currency contracts and the investment in Sealantis.

Adjusted profit before tax decreased by 7% to £26.6 million (2018: £28.8 million) and profit before tax decreased by 14% to £24.3 million (2018: £28.3 million).

The Group adopted IFRS 16 (Leases) in 2019 and the comparative period has been restated, which reduced profit before tax by £0.1 million in the year (2018: £0.2 million). There is no overall impact on the Group's cash and cash equivalents as a result of IFRS 16.

Reconciliation of profit before tax to adjusted profit before tax

	2019 £'000	2018 £'000
Profit before tax	24,257	28,271
Amortisation of acquired intangibles	1,689	81
Change in fair value of long-term debt	(345)	–
Exceptional items	1,053	402
Adjusted profit before tax	26,648	28,754

The Group's effective tax rate in the Income Statement, reflecting the blended tax rates in the countries where we operate and including UK patent box relief, increased to 22.0% (2018: 20.5%) mainly due to some of the exceptional items in the period not being deductible for tax purposes and to Sealantis operating losses not being offset against profits elsewhere in the Group.

Adjusted diluted earnings per share decreased by 8% to 9.83p (2018: 10.63p) and diluted earnings per share decreased by 16% to 8.72p (2018: 10.41p).

The Board is proposing a final dividend of 1.05p per share to be paid on 19 June 2020 to shareholders on the register at the close of business on 29 May 2020. This follows the interim dividend of 0.50p per share paid on 25 October 2019 and would, if approved, make a total dividend for the year of 1.55p per share (2018: 1.32p), a 17% increase on 2018.

Operating result by business segment

	Surgical £'000	Woundcare £'000
Year ended 31 December 2019		
Revenue	56,544	45,824
Profit from operations	14,411	11,370
Amortisation of acquired intangibles	1,675	8
Adjusted profit from operations⁴	16,086	11,378
Adjusted operating margin⁴	28.4%	24.8%
Year ended 31 December 2018		
Revenue	57,113	45,485
Profit from operations	18,164	11,272
Amortisation of acquired intangibles	76	5
Adjusted profit from operations ⁴	18,240	11,277
Adjusted operating margin ⁴	31.9%	24.8%

Note 4: Adjusted for exceptional items, amortisation of acquired intangible assets and change in fair value of long-term debt.

The table is reconciled to statutory information in Note 4 of the financial information.

Surgical

The adjusted operating margin of the Surgical Business Unit decreased by 350 basis points to 28.4% (2018: 31.9%), impacted by the reduction in US LiquiBand® sales which are at a higher gross margin than the Group average, Sealantis costs and adverse currency movements.

Woundcare

The adjusted operating margin of the Woundcare Business Unit remained consistent at 24.8% (2018: 24.8%), as an increased royalty from Organogenesis in the period was offset by adverse currency movements.

Currency

More than one-third of Group revenues are invoiced in US Dollars and approximately one quarter are invoiced in Euros. The Group hedges significant currency transaction exposure by using forward contracts and aims to hedge approximately 80% of its estimated transactional exposure for the next 12 to 18 months. The Group estimates that a 10% movement in the £:US\$ or £:€ exchange rate will impact Sterling revenues by approximately 3.4% and 2.7% respectively and in the absence of any hedging this would have an impact on profit of 2.7% and 1.0%.

Cash Flow

Adjusted net cash inflow from operating activities increased by 3% to £22.8 million (2018: £22.1 million). Net cash inflow from operating activities, impacted by exceptional items, were in line with the previous year at £21.7 million (2018: £21.7 million).

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Net cash inflow from operating activities	21,699	21,674
Add back Exceptional items	1,053	402
Adjusted Net cash inflow from operating activities	22,752	22,076

Working capital increased during the year, mainly due to increased inventory levels and lower payables. Inventory increased to 5.1 months of supply (2018: 4.7 months) with high inventories to mitigate Brexit and recertification further impacted by goods awaiting sterilisation following the delay at a third-party facility. Payables decreased in value due to controlled discretionary expenditure, however, creditor days increased to 34 days (2018: 31 days). Debtor days increased marginally to 49 days (2018: 47 days).

Capital investment in equipment, R&D and regulatory costs increased to £5.9 million (2018: £4.7 million).

Cash outflow relating to taxation increased to £5.9 million (2018: £3.8 million) due to the timing of tax payments, in particular in Germany and the US.

The Group paid its final dividend for the year ended 31 December 2018 of £1.9 million in June 2019 (2018: for the year ending 2017, £1.6 million), and its interim dividend for the six months ended 30 June 2019 of £1.1 million in October 2019 (for the 6 months ended 30 June 2018: £0.9 million).

The Group has an undrawn £80 million credit facility provided jointly by Royal Bank of Scotland Group plc (The Royal Bank of Scotland) and HSBC UK Bank plc (HSBC) which is in place until December 2023. This facility carries an annual interest rate of LIBOR or EURIBOR plus a margin that varies between 0.60% and 1.70% depending on the Group's net debt to EBITDA ratio. The facility is subject to leverage and interest cover covenants and is unsecured.

Stakeholder Engagement

Effective engagement with our key stakeholders and managing our impacts



Engaging with Investors



Investor and analyst meetings and consultation

The Executive Directors and external strategic communications advisors manage the Group's external relationships with investors, prospective investors, and analysts. They schedule a comprehensive programme of investor and analyst meetings and calls, in particular following the release of annual and half-year results and trading updates.

Engagement in 2019

- The Executive Directors attended 118 investor or analyst meetings (107 one-to-one meetings and 11 group meetings), engaging with around 70% of our current shareholders (by shareholding value) and 7 analysts. Key themes discussed included results, strategy, market dynamics, R&D pipeline, acquisition strategy, dividends and other matters relevant to individual parties. Investor roadshows were organised in London and Liverpool and also a number of site visits were arranged for investors;
- The Remuneration Committee Chairman consulted with major shareholders on the proposed increases in the remuneration package for the Chief Executive Officer and newly appointed Chief Financial Officer;
- The Chairman, the Senior Independent Director and other Non-Executive Directors were available to attend meetings with major shareholders at the request of either party to gain an understanding of any issues and concerns; and
- Our investor website was updated and reviewed regularly to ensure that our information was up to date.

Outcomes

- Information has been provided in results announcements and trading updates on:
 - Progress against market expectations and short to medium-term targets;
 - General market conditions, including progress made in key markets such as US topical skin adhesives, internal adhesives and EMEA/APAC;
 - Details of product pipeline, including new product launches in the EU, US and smaller international markets, and progress on the premarket approval (PMA) for LiquiBandFix8®;
 - Progress on the acquisitions made and the strategy for future acquisitions
 - Ongoing impact of the Medical Device Regulation (MDR), and challenges and opportunities this provides;
 - Impact of the realigned Business Units in 2019; and
 - Preparations to mitigate impact of Brexit and COVID-19.

Effect of engagement with investors and analysts on Board decisions

- The Board has reviewed matters such as: the best use of distributable reserves, for example for dividend payments; the timing and content of results announcements, trading updates, composition of the Board and succession planning, as well as other matters raised by shareholders at the AGM.
- The Board decided to continue to increase investment in major R&D and regulatory projects and to look for further acquisitions that meet our strict criteria as the best use of our cash balances.
- The Board decided to put in place a medium-term succession plan for the Non-Executive members of the Board.



Board awareness of investor views

Engagement in 2019

- The Chief Financial Officer reported regularly to the Board on the Company's investor relations activities, including updates from the Company's brokers to ensure that all Directors are aware of, and have a clear understanding of, the views of major shareholders and analysts covering AMS.
- The Company's brokers provided an analysis of investor and analyst feedback during the year under review and the Executive Directors regularly circulated updates to the Board.

Outcomes

- Additional information was provided to investors in results announcements and trading updates as outlined above
- Gives the Board a clear understanding of investor sentiment and how this changes over time

Views of retail shareholders

Engagement in 2019

- The Deputy Company Secretary, together with the Company's Registrars, engaged with our retail shareholders throughout the year to deal with enquiries relating to their shareholdings or information requests.
- A number of retail shareholders attended the AGM and had the opportunity to meet with and put questions or comments to the Board.
- The Deputy Company Secretary notifies the Chairman and Chief Financial Officer of any areas of concern or importance raised by retail shareholders. No such queries were raised during the year.
- This provides a good perspective on the different drivers for investment in the Group and the reasons as to why retail shareholders may hold shares in the Company, such as brand recognition, capital growth and dividends.

Views of voting agencies

Engagement in 2019

- The Board is fully aware of the influence that proxy agencies, such as the Institutional Shareholder Service (ISS), Glass Lewis and the Investment Association, have on how our investors will vote at the AGM or via proxy. We wrote to investors and voting agencies to update them in respect

of the remuneration packages and practices for Executive Directors, where applicable. We have worked closely with the proxy agencies and significant shareholders on key issues such as Director independence, tenure and number of Board appointments in 2020.

Outcomes

- More insight into what our shareholders expect
- Any feedback from proxy agencies helps to form our Remuneration Policy to ensure that our practices are satisfactory and provides input into succession planning for the Board and Nomination Committee

Annual General Meeting

Engagement in 2019

- At the 2019 AGM, the Chief Executive updated shareholders on the Group's performance and activities during the prior year.
- The Chairman and each Board Committee Chair were available throughout the AGM to answer any queries raised.
- The 2020 AGM will be a closed meeting in response to Government guidance on COVID-19.
- The Notice of AGM will be circulated to all shareholders at least 20 business days prior to the meeting.

Outcomes

- At the 2019 AGM, a number of retail shareholders asked the Board to consider the AGM location. We decided to hold the 2020 AGM in Cheshire. We will consider shareholders' views for the 2021 AGM

Trading updates

Engagement in 2019

We continue to keep our shareholders fully informed of the performance of the business on a regular basis, through the publication of two trading updates, in January and June as well as the full and half-year announcements in March and September, and further announcements as and when required, including a COVID-19 update on 2 April 2020.

Stakeholder Engagement

continued



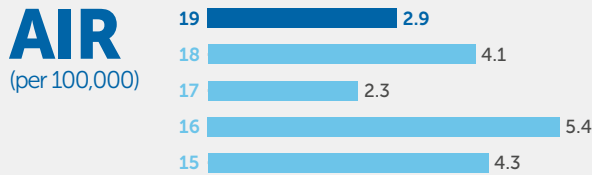
Engaging with our Employees

Health and safety, well being, and environment

Engagement in 2019

- We are focused on maintaining the highest levels of health and safety within our business. The health and safety of our employees, as well as that of our customers, suppliers, sub-contractors and all other visitors to our sites and offices, is of the utmost importance to us. We reduced our AIR (All Incident Rate) target by 33% from 6.0 to 4.0 in 2019 which reconfirms our desire to continuously improve our safety performance and enhance our safety culture.

AIR total number of injuries x 1000 Total labour hours worked



- AMS continued to deliver solid safety performance with an AIR score of 2.9 (2018: 4.1). The number of incidents fell, driven by the stricter targets and improvements implemented following the higher score in 2018.
- The Deputy Company Secretary updates the Senior Management Team (SMT) with a report highlighting any key H&S matters on a monthly basis and these reports are reviewed at the respective Board meetings during the year.
- A Group Health, Safety & Environmental Manager was appointed in 2019, highlighting the importance of this area to the Group.
- During 2019 the following engagement took place with employees on health and safety:
 - Group Health, Safety & Environmental Manager visited the Group sites to understand any health, safety or environmental issues impacting employees;
 - Process to audit and assess all locations was undertaken;
 - Engaged with site employees on how they see health and safety, what they would like to see; and
 - Key health and safety messages were reiterated at the Employee Forum meetings, and opinions sought on ways to improve health and safety at our sites and reduce our impact on the environment.

Outcomes

- Reviewed and updated the training and information provided to our employees and those visiting our sites to ensure that they remain fit for purpose and reflect the feedback received from our employees;
- Developed the 2020-2024 Environmental, Health & Safety strategy;
- Site H&S plans driven by site leadership teams introduced; and
- Prepared and consulted on an environmental and energy management system for introduction in 2020

Employee Forum/Works Council

Engagement in 2019

- Employee Forums have been established at sites across the Group, taking into account local requirements:
 - The Group has Employee Forums at both UK sites and a combined UK Employee Consultative Group (ECG), which discusses key initiatives relevant to UK employees. UK site and ECG meetings are held twice annually. SMT members attend the site meetings and the ECG is chaired by a SMT member and attended by the Group HR Director. In Germany, there is a Works Council which meets monthly at our Nuremberg site and the Group HR Director and CFO attended a number of meetings in 2019, covering a variety of issues relating to employee working conditions. Both the ECG and Works Council comprise representatives from across the related sites.
- Our French site (Biomatlante) has a Works Council, which will be integrated in 2020. Our smaller sites (Etten Leur, Israel and Neustadt) have HR on-site and hold monthly site employee meetings, allowing direct access to Group HR to raise issues.
- The objectives of the forums are to:
 - Achieve closer engagement between the SMT and employees
 - Provide further opportunity for employees, via forum members, to influence working conditions and ways of working
 - Provide an initial indication of possible employee reaction to proposed policy and benefit changes
 - Share results of engagement activities and generate ideas for action; and
 - Allow direct access to Group HR to raise issues

- Since it was set up, the National ECG Forum has met three times. During these meetings, they have discussed and considered various matters, including mental health awareness, stress, reward and recognition, employee benefits and charitable donations, flexible working arrangements, and Code of Conduct. A bespoke Code of Conduct applicable to the Group will be implemented in 2020.

Outcomes

- The National ECG forum has provided valuable input since it was put in place in 2018, including raising awareness of mental health across the Group, providing training to Mental Health First Aiders, introducing a Stress Policy, and increasing the awareness of recycling projects.
- Forum members have helped to increase the profile and awareness of charity work across the Group. Charity matching is available, helping to increase the focus on St Luke's Cheshire Hospice and Jeremiahs Journey, the selected charities in the UK in 2019, as well as a number of charities in Germany including animal protection, help for people with disabilities and children's charities.

Internal Communications

Engagement in 2019

We continue to ensure that our employees are kept informed of developments and important issues. These are cascaded throughout the business through a variety of channels including the Group's intranet, emails and newsletters.

The SMT meet monthly and communication is cascaded down through team meetings. This allows employees the opportunity to provide feedback or raise questions directly.

Employees also have the opportunity to ask the SMT questions directly through a portal on the Group's Intranet, which can be done anonymously if desired.

There is a Group Whistleblowing Policy which provides direct access to the Board. This is a mechanism for employees to communicate any concerns they may have.

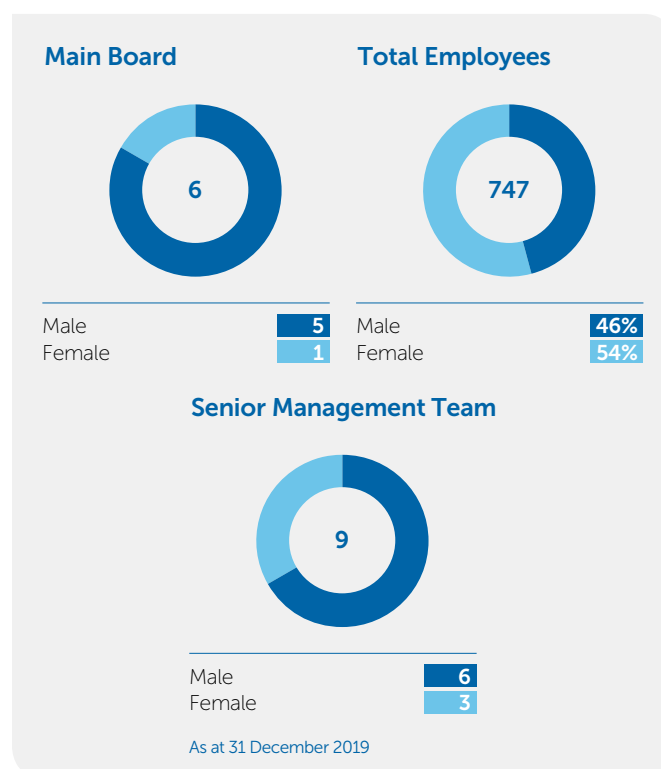
Outcomes

- Employees raised a number of issues with Senior Management, such as looking at ways to utilise renewable energy at higher energy use sites and how to better tackle plastic waste and recycling in general. Site visits allowed employees to present issues in an open forum to the Executive Directors. These were part of the gap analysis carried out at the end of 2019 and will be integrated into the updated Environmental Plan in 2020.

Diversity and inclusion in recruitment and training

Engagement in 2019

- HR assessed the need for diversity in the recruitment process.
- Actions were initiated at our RESORBA® site to ensure compliance with local legislation relating to disabled employees, which resulted in a long-standing fine not being levied.
- In April 2019, the Company again invited all employees in the Group to participate in the Deferred Share Bonus Plan (DSB). The invitation enabled eligible employees to contribute up to £1,800 or 100% of their bonus, whichever is higher.



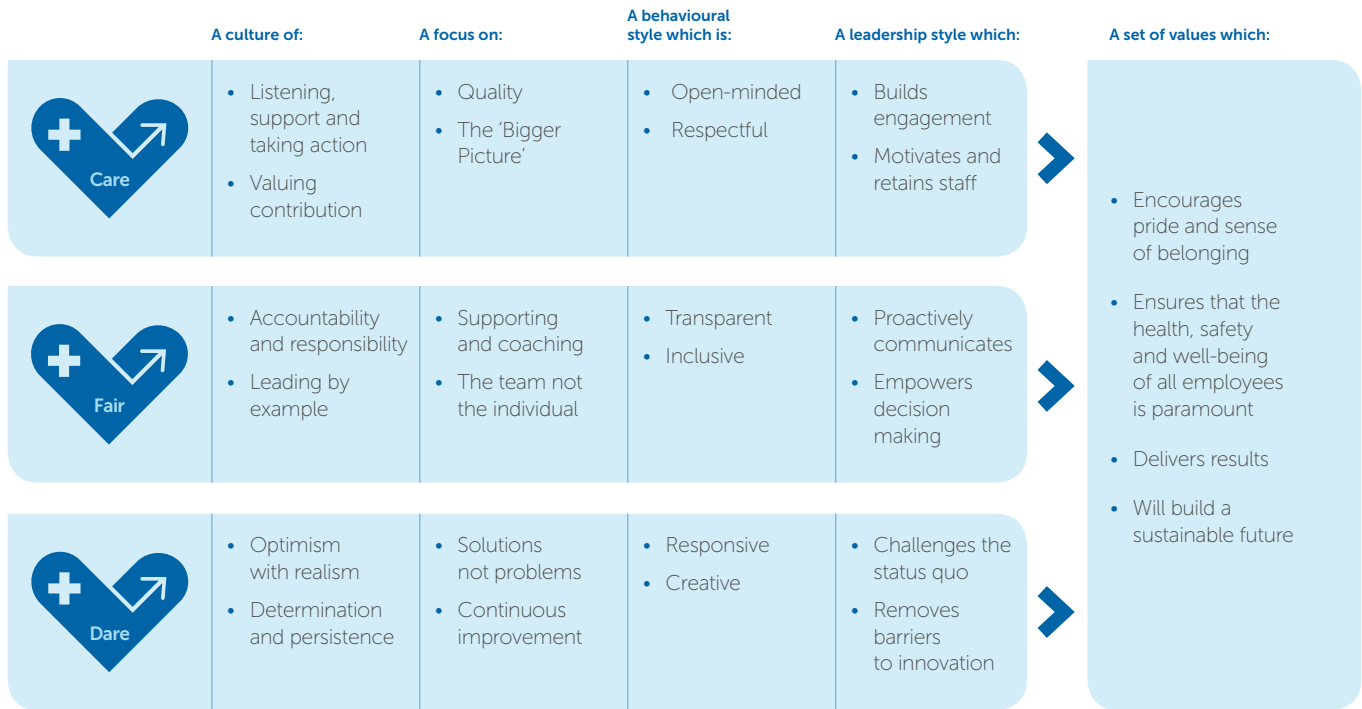
Outcomes

- The Group introduced a policy of having women in all recruitment selection pools.
- There are women on all interview panels across the Group.
- At 31 December 2019, approximately 31% of employees participate in one or more active DSB grants and 188 employees participated in the April 2019 DSB Scheme. All Group employees were eligible.
- The inclusion of employees in share schemes aligns their interests with that of the Executive Directors and other shareholders and increases their engagement with the performance of the Group through investment in the Company's shares.

Stakeholder Engagement

continued

The Advanced Medical Solutions' 'Care, Fair, Dare' Approach



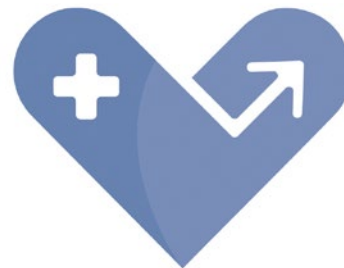
Culture

Engagement in 2019

- Our Group operates to the highest ethical standards with our values of Care, Fair, Dare embedded in all we do. Our culture defines the behaviours we expect from every one of our employees when going about their business. We have well established processes through which we seek feedback from our employees about their perception of our culture and how employees have demonstrated the values during their interaction with them. We also receive feedback from our cultural workshops, employee engagement surveys, exit interviews, Employee Forums and visits by the Executive Directors and Senior Management to our sites and offices.
- Employees had the opportunity to attend Care, Fair, Dare workshops to agree action plans for their team and feedback on the process.

Outcomes

- To ensure that the tone of our culture is driven from the top, the Board's involvement in the review process is critical. The Board is scheduled to undertake a more detailed review of our culture in 2020 to assess how it is perceived (both positive and negative), and will agree with management as to what, if any, actions need to be taken. The review will also outline how we propose to measure and report on our culture in the Annual Report going forward.



Care Fair Dare

Engagement survey

Engagement in 2019

- We annually undertake an employee engagement survey which focuses on the implementation of Care, Fair, Dare.
- For the year under review, the survey results showed the overall level of engagement increased from 41% in 2018 to 48% in 2019.
- We are satisfied with the employee engagement score in 2019, although we aim to increase this in 2020.
- Employees have seen a positive improvement and 49% of employees took part. Participation has increased from 38% in 2018.
- These results have been shared with the teams and each team have implemented a Care, Fair, Dare action plan to further embed the culture. It is hoped this will help to maintain or enhance employee engagement levels.
- We are investigating the use of a variety of software tools to further enhance and improve employee engagement in 2020.

Outcomes

- New strategies to promote health, safety and environment have been put in place as detailed above.
- We have implemented a number of initiatives to improve internal communications. These include cascading our Corporate Objectives to help employees better understand the big picture, a request raised in the Care, Fair, Dare workshops and introducing an 'Ask the SMT' intranet portal where any employee can ask the SMT any question, anonymously if desired.
- Provided resource to introduce a Project Management Office to prioritise our most important projects and optimise resource allocation.
- Reviewed Authority Matrix to empower employees, a request from employee workshops.
- Articles in our newsletter outlined further changes made from survey results.
- Introduced competency-based interviews using Care, Fair, Dare values.
- Trained managers on 360-degree feedback.
- Revamped R&D processes to better link it to our Care, Fair, Dare values.



Effect of engagement with employees on Board decisions

To increase its engagement with the workforce and comply with Code Provision 5 the Board nominated Penny Freer, the Senior Independent Director, as the designated Non-Executive Director for workforce engagement. Penny will attend her first UK ECG meeting as soon as the practicalities of COVID-19 allow and report back to the Board thereafter. She will attend at least one meeting annually going forward and is also available to members of the UK ECG, Works Councils and any other employee body from across the Group throughout the year.

The Board also listened to recommendations regarding how to improve new product development and better manage competing demands on resources. This led to the development of the improved Product Development Process and implementation of a Project Management Office (PMO). This will help with launching products into the market quicker and overcoming regulatory hurdles.

Talent reviews were initiated across the Group, which included five-year training and development plans, and were presented to the Board in Q1 2020. Senior Management presented directly to the Board on their areas of responsibility in 2019, to increase engagement, and this will continue in 2020.

Stakeholder Engagement

continued



Engaging with Patients, Partners and Clinicians

Patient, Partner and Clinician Satisfaction

Engagement in 2019

- We focus on delivering innovative and technologically advanced products and industry-leading training, whilst resolving partner or clinician problems quickly and efficiently.
- We ensure that our partners have the opportunity to speak to key employees at any time and any concerns are reviewed and acted upon quickly and effectively.
- We invested significant resources in our ActivHeal® Academy to deliver free educational programmes to our clinicians, providing them with online training that can also meet their CPD needs.
- We provided education and training for our partners and clinicians, both through face-to-face training and masterclasses, as well as developing platforms such as social media, dedicated websites, online tools and marketing software, allowing increased accessibility to our resources.
- Patient outcomes and clinician experience provide key inputs to our innovation process.
- We provide value-based incentives, rebates and pricing schemes that create win/win relationships with our partners.

Outcomes

- Increased loyalty and positive feedback in the market for ActivHeal®, with 96% of clinicians viewing the provision of educational materials as important to them and 100% indicating that they benefited greatly from it.
- ActivHeal® nominated for a Marketing Excellence Award.
- Investment in technology to improve our communication with partners and clinicians.
- Growing global network and Surgical Business Unit, supported by investment in technology to improve communication with partners and clinicians.

Partner and Clinician Insight

Engagement in 2019

- Partner and clinician insight is crucial to decision making and continuous improvement of our products and business. 2019 engagement initiatives included:
 - Increased our understanding of the key reasons that our products are chosen;
 - Engaged an extensive survey through an industry-leading journal to gain insight as to how our ActivHeal® brand is perceived by clinicians;
 - Worked with the NHS on a Clinical Evaluation Team Report in order to enhance our ActivHeal® brand and raise awareness of the benefits we can provide by making 'best in class' packaging;

- Engaged clinicians more directly, including support and participation in industry clinician groups;
 - Conducted 'Voice of Customer' and focus groups to review products and ideas to provide feedback on a regular basis;
 - Leveraged our 'best in class' LiquiBand® evaluation support tools to train and support evaluation and implementation of our products;
 - Provided masterclasses and training, and allowed Key Opinion Leaders the opportunity to learn our products; and,
 - Sessions with key partners and clinicians, which allow us to receive feedback directly from them.
- In 2020 we will establish clinician/advisory panels focusing on woundcare and microbiology to identify technologies and patient and clinical need.

Outcomes

- Aligned our pipeline of new products and value-added rebates, services and customer support programs with partners.
- Results from feedback received has led to a review and further enhancements and marketing of our ActivHeal range.

Patient and Customer Feedback

Engagement in 2019

- Held Quarterly Business Reviews (QBRs) with all major partners to solicit market and product feedback.
- Customer feedback is used in a number of ways:
 - Focus groups to gain insight on our launches to market;
 - Issues raised by partners and clinicians at Clinician Groups is shared with our Procurement and Commercial teams for planning future design and specification;
 - Complaints are analysed to agree actions to resolve root causes.

Outcomes

- Refined internal policies, processes and procedures to take into account partner and clinician feedback.
- Enhance product design to improve user experience.

Industry Bodies

Engagement in 2019

- We continue to work closely with industry bodies and charities working in our markets, such as the European Hernia Society, International Bariatric Club, The Lindsay Leg Club and Tissue Viability Society. This enables us to keep informed on any trends or changes that will affect partners or clinicians, and also gives us a voice to contribute to the sector.



Engaging with our Supply Chain

Ongoing supplier relations

Engagement in 2019

- The Chief Executive Officer, Chief Operations Officer and Group Purchasing and Supplier Quality Manager meet with suppliers and sub-contractors to ensure that: (i) we are receiving the level of service expected; (ii) we have contracted on favourable commercial terms, locally and nationally; and (iii) any issues or challenges they are facing can be considered and suitable solutions found.
- During the year, our Group Purchasing and Supplier Quality Manager attended a networking event to meet suppliers and material innovators.
- Our Sourcing and Procurement Department held business briefings for new and existing subcontractors to ensure that they are aware of our plans and can provide performance feedback.
- Numerous calls and face-to-face meetings were held with a key supplier who experienced a technical failure at their sterilisation plant.

Outcomes

- Ongoing discussions with suppliers have led to mutually beneficial arrangements improving costs and the consistency of supply of materials, and reducing lead times.
- Informed the business of innovative and alternative technologies available for possible future adoption.
- Keeps our sub-contractors and supply chain up to date in respect of any changes to our working practices as appropriate.
- Key sterilisation supplier committed to significant investment at a key UK site to improve the service provided to AMS as one of their key customers.



Research and Development

Engagement in 2019

- We invite all of our supply chain to bring product and service innovations and improvements to our attention.

Outcomes

- Development of a new product through to launch by working with an existing supplier and utilising their knowledge and network.
- Aim to launch two new products per year. A pipeline is in place to achieve this goal in the coming years.

Payment terms

Engagement in 2019

- We are fully aware of the importance to both the Group and our sub-contractors and suppliers of complying with all payment terms.
- We have complied with the requirements to disclose our payment terms as required by Section 3 of the Small Business, Enterprise and Employment Act 2015.

Outcomes

- Our payment practices compare favourably with industry norms.

Stakeholder Engagement

continued



Minimising our Environmental Impact



Environmental Review of 2019

It is the Group's policy to abide by all laws, directives and regulations relevant to its field of operations and we aim to minimise the effects of our operations on the environment. We are required to comply with the Streamlined Energy and Carbon Reporting (SECR) regulations in 2020. In 2019, we measured our environmental impact in line with the SECR requirements and planned the actions we need to implement in 2020. Our high-level findings are set out below:

Environmental Impact

During 2019 AMS emitted 2,562 tonnes of CO₂e into the atmosphere



Communication is key

2020 is a key year as AMS needs to comply with SECR



2020 targets need to be agreed

AMS has a base line figure to meet SECR, it now needs to meet the criteria of SECR



Future Sustainability

We need to commit to taking action on energy and environmental activities



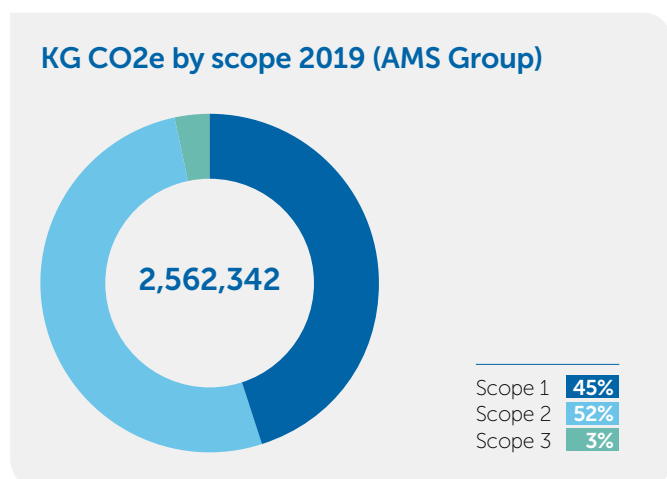
Change of mindset

Public expectations are changing. AMS must react to this



Our focus

Our focus was on the areas of largest environmental impact, including manufacturing sites, warehouses, R&D sites and offices. Acquisitions completed in 2019 are not included in the data. Our emissions reporting represents our core business operations and facilities which fall within the scope of our Consolidated Financial Statements. Primary data from energy suppliers has been used wherever possible.



We report our emissions in three scopes:

Scope 1 – All Direct Emissions from the activities of an organisation or under their control, including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2 – Indirect Emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy eventually used by the organisation.

Scope 3 – All Other Emissions from activities of the organisation, occurring from sources that they do not own or control.

Location-based emissions are calculated in compliance with the factors published by BEIS/DEFRA for 2019. In 2020 we will be reviewing ways to offset carbon generation.

AMS Group (2019 emissions by footprint/scope)¹

Footprint	Scope 1	Scope 2	Scope 3	GHG emissions sub / total (kg CO ₂ e)
Premises				
Employees	465,928			465,928
Electric		1,322,642		1,322,642
Water			9,998	9,998
Waste			70,096	70,096
Sub total				1,868,664
Travel				
Company Vehicles	406,308			406,308
Sub total				406,308
Other – Materials used				
F-gas losses	287,370			287,370
Sub total				287,370
Total	1,159,606	1,322,642	80,094	2,562,342

¹ Data compiled under the requirements of the Streamlined Energy and Carbon Reporting Framework (SECR).

Stakeholder Engagement

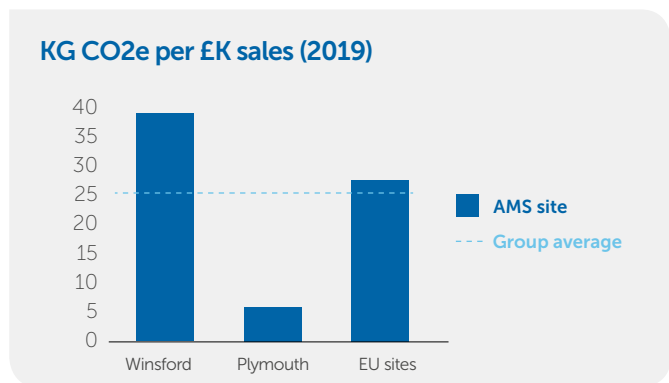
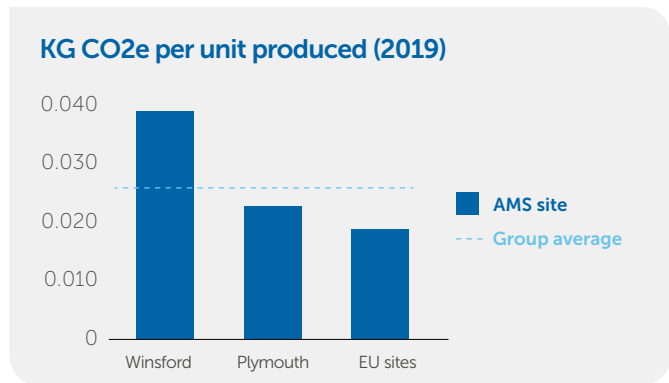
continued

A breakdown of the KG CO₂e per unit and per £k sales at our sites combined, together with a summary of the key data shows:

- Average KG CO₂e emitted from all reported activity was 0.04 KG CO₂e per unit sold.
- Average KG CO₂e emitted per £K of sales from all reported activity was 25.14 KG CO₂e.
- Business travel by car accounted for 16% of all KG CO₂e reported.
- Service use (Gas & Electric) followed by business miles are the biggest generation of emissions equalling 70%.
- Waste accounts for 3% of the total reported.
- Indirect emissions was the biggest area of KG CO₂e generation accounting for 52%.

The Future – what we will do

- Report and feedback on our environmental progress each year.
- Set targets to reduce environmental burden through effective energy and environmental management.
- Investigate and implement (where appropriate) energy and environmental initiatives that will reduce our burden.
- In line with AMS's own environmental and energy commitments, we will incorporate the United Nations Sustainable Development Goals that can be made applicable to our business (see below).
- Look to reduce essential service use (Electric & Gas) as this is our single biggest resource and accounts for 70% of our reported environmental figures. AMS will aim to reduce by 10% over 2020 with further reductions year on year planned.
- Look at business travel as this accounts for 16% of emissions and with modern communication methods could be area to reduce environmental burden.



Above: United Nations Sustainable Development Goals being incorporated by the Group.



Engaging with our Communities

Volunteering/local community

Engagement in 2019

- We encourage all of our employees to participate in our engagement with the community. We took part in Passion for Learning, a caring and inclusive organisation passionate about using fun and imagination to boost children's confidence and self-esteem, where our Chief Executive Officer and R&D Department attended in person. We also provided volunteer marshals for the St Luke's Hospice Midnight Walk, our dedicated charity at the Winsford site. Among the other good causes we supported in 2019 were being involved in local schools and providing HR guidance for a local charity.
- We participate in the local communities, through events such as those above and through charitable giving outlined below and also through other activities, such as membership of the Winsford 1-5 Group, for businesses local to the Winsford Site.

Outcomes

- Employees gained a better understanding of the needs of their local community and the work our chosen charities carry out.



Charitable giving

Engagement in 2019

- We believe that it is important to support charitable causes, both locally and nationally. We have therefore allocated funding in the form of matching funds (with an appropriate financial cap) raised by each site and individuals for their chosen charities.
- In the UK we have a long-standing relationship with St Luke's Hospice, who provide palliative care to local people, and raised funds for Jeremiah's Journey, who provide free support to children, young people and their parents and carers who have, or are about to experience, the death of someone special. We also support a number of charities local to sites across the Group, sponsor local community events and sports teams, and employees and close family members of employees who participate in sporting teams or activities, where appropriate.

Outcomes

- Substantially increased focus on charities and charitable giving
- Increased focus on employee volunteering



Above: Charities selected by UK sites in 2019.

Stakeholder Engagement

continued



Engaging with our Regulators

Engagement on 2019

- The Board is committed to ensuring that it is open and transparent with regulators and look to work closely with them.
- We work closely with our notified bodies to ensure that our products are approved as quickly as possible. This has been critical in the last two years following the need to renew product certificates Group-wide and the upcoming introduction of the Medical Device Regulation (MDR).
- Work with the Notified Bodies in 2019 lead to monthly meetings, clear contacts and lines of communication, and attending workshops to help both sides understand the enhanced requirements of the MDR.

Outcomes

- Ability to be more efficient in obtaining product renewal certificates and well prepared ahead of the MDR deadline with better understanding and positive relationships with notified bodies, potentially providing a competitive advantage to the Group.
- Gaining an increased understanding of regulatory requirements during the MDR transition period led to improved regulatory guidance and service to partners and customers.
- Improved success on new product approvals moving forward.
- Robust Group-wide regulatory strategy.

Effect of engagement with Regulators on Board decisions

- Broader understanding of MDR and other legislation affecting the Group ensures that Board decisions are based on the full understanding of the environment in which we operate and reference the five-year strategy and post-MDR landscape.
- The Board has significantly increasing resources available to invest in regulatory affairs following a review of the regulatory strategy and increased exposure to regulatory issues.
- The Board better understands the key drivers for the Notified Bodies and Competent Authorities we certify with, resulting in more informed decisions.



Business Conduct

The Group aims to maintain a reputation for high standards of business conduct. We aim to comply with, and in many cases exceed, the requirements for an AIM-Listed Company. This is highlighted by the Group policies outlined below in the Non-Financial Reporting Statement. In particular, we have an increased focus on our impact on the environment, with more comprehensive reporting across the Group and voluntary disclosures on our environmental impact. The Engagement with Stakeholders section on pages 30 to 43 further outlines our commitments to our investors, customers, communities, environment and supply chain, and builds on our aim to act as a good corporate citizen.

In addition we follow the 2018 UK Corporate Governance Code (Code), which is the most comprehensive and stringent governance code in the UK. Reporting against the Code ensures we maintain our high standards of Corporate Governance and act in the way our stakeholders would expect.

Non-Financial Reporting Statement

This Annual Report contains the information required to comply with the Companies, Partnerships and Groups (and Non-Financial Reporting) Regulations 2016, as contained in sections 414CA and 414CB of the Companies Act 2006. The table below provides key references to information that, taken together, comprises the Non-Financial Reporting Statement for 2019.

Reporting requirement	Group Policies that guide our approach	Information and risk management, with page references
Environmental matters	<ul style="list-style-type: none"> – Group Environmental Policy – Ethical Sourcing Policy 	Minimising our Environmental Impact, pages 38 to 40 Our Business Model, pages 4 and 5 Risk Management, pages 44 to 47
Employees and social matter	<ul style="list-style-type: none"> – Group Equality Policy – Community Support – Health and Safety Policy – Group Environmental Policy – Ethical Sourcing Policy 	Minimising our Environmental Impact, pages 38 to 40 Our Business Model, pages 4 and 5 Risk Management, pages 44 to 47 Engagement with Stakeholders, pages 30 to 43 Our Strategic Pillars, pages 12 and 13
Respect for human rights	<ul style="list-style-type: none"> – Anti-Slavery Policy – Ethical Sourcing Policy 	Corporate Governance Report, pages 52 to 57
Anti-corruption and anti-bribery matters	<ul style="list-style-type: none"> – Group Anti-Bribery Policy – Group Gift Policy – Group Sanctions Policy – Group Whistleblowing Policy – Ethical Sourcing Policy 	Audit Committee Report, pages 58 to 61 Risk Management, pages 44 to 47
Description of the business model		Our Business Model, pages 4 and 5
Description of the principal risks in relation to the above matters, including business relationships, products and services likely to affect those areas of risk, and how the company manages the risks		Risk Management, pages 44 to 47
Non-financial key performance indicators		Key Performance Indicators, pages 16 and 17

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, external auditor and the Board twice annually. The plans and actions assigned to the Executive

Directors and SMT members are reviewed to ensure progress is being made with risk actions and mitigation plans.

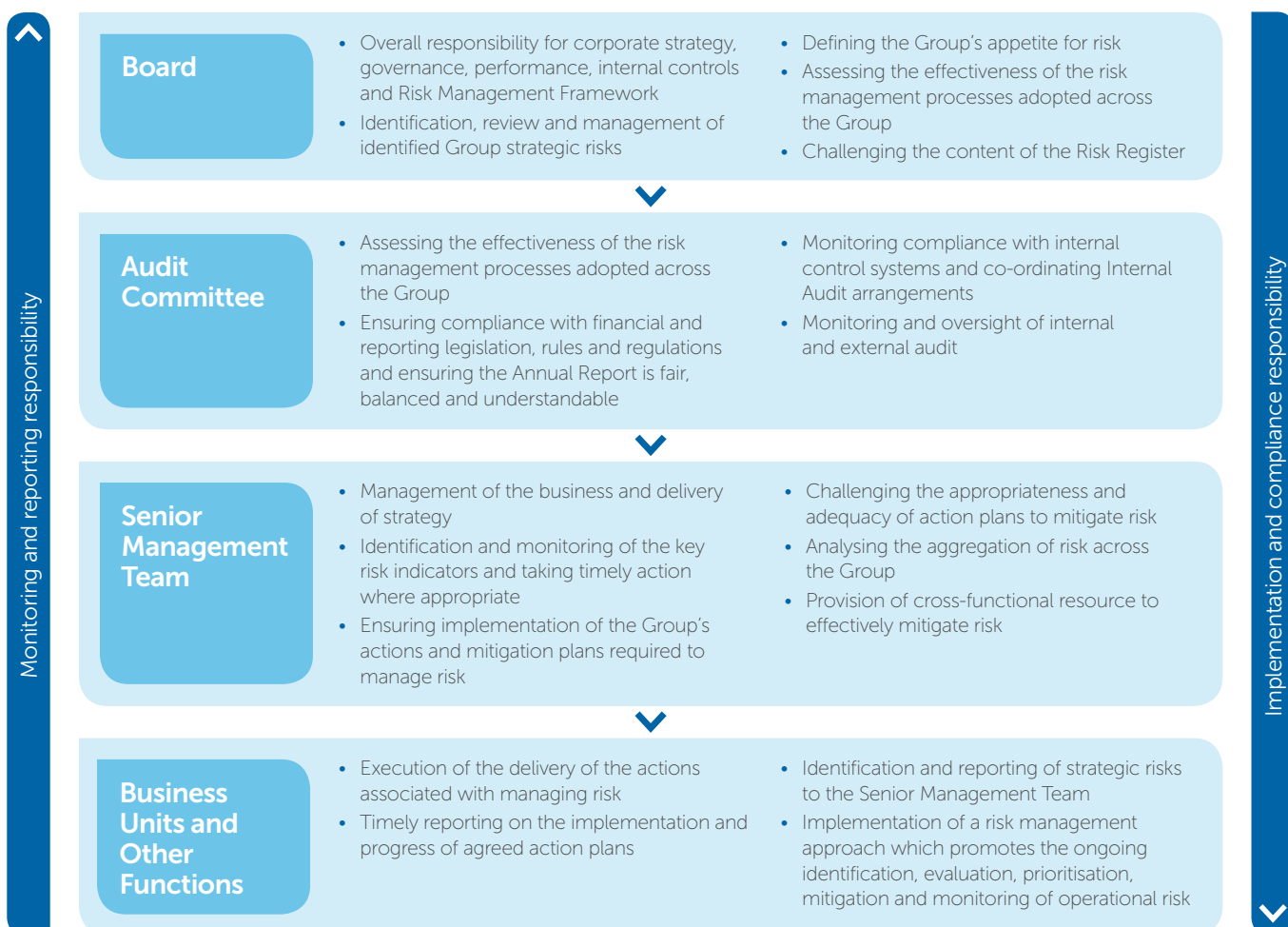
We believe that the policies, procedures and monitoring systems that are in place are sufficient to effectively manage the risks faced by our business.

The Board has applied principles 28 and 29 of the 2018 UK Corporate Governance Code (Code) by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces, as outlined on page 45, and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

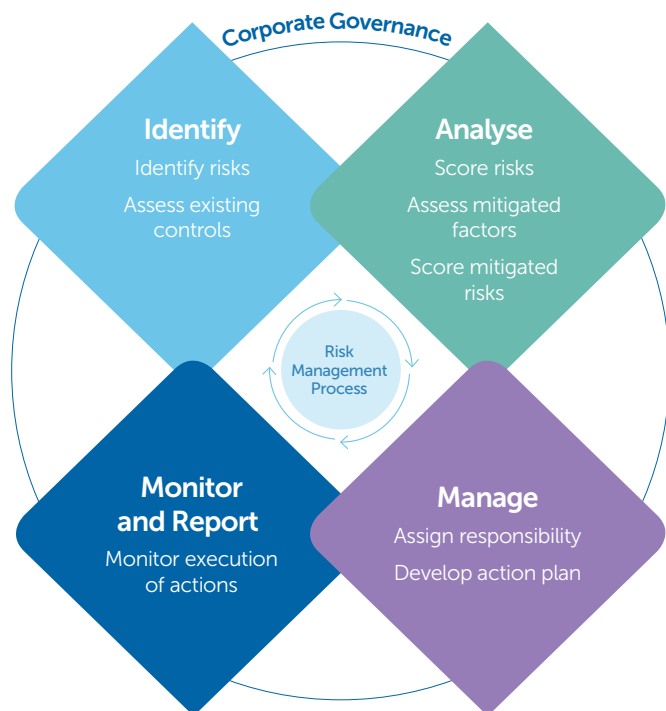
Identifying Risks

A robust methodology is used to identify key risks across the Group; in Business Units, operations and during projects. This is an ongoing process, and is carried out in accordance with the relevant provisions set out in the Code.

Key Roles and Responsibilities



Risk Management Model



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 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 and risk mitigation plans and progress are reported to and reviewed by the Board, following the SMT's bi-annual review of the Group's Risk Register.

Internal Audit

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

Risk Heat Map

While we continue to monitor and manage a wider range of risks, the risk map summarises those risks considered to have the greatest potential impact if they were to materialise.

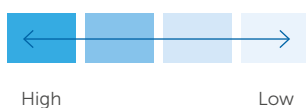
Principal Risks

- | | |
|---|------------------------|
| 1 Market share/new markets | 6 Brexit |
| 2 Intellectual property | 7 Regulatory |
| 3 Industry consolidation/loss of key business | 8 Single source supply |
| 4 Increased competition | 9 Cyber-risk |
| 5 Acquisitions/integration | 10 Talent management |
| | 11 Forex |

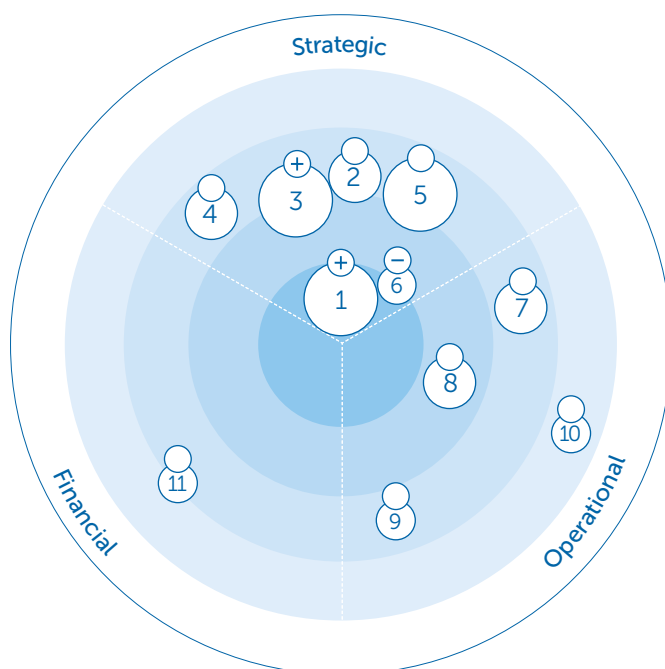
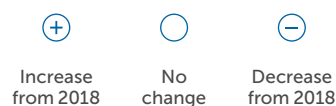
Risk Size



Likelihood



Trend (net position of risk vs FY2018)











Risk Management continued

Principal Risks and Uncertainties

All of the Principal Risks and Uncertainties are listed in the following pages, which includes a link to the strategy through the strategy icons.

Strategic Risks

Risk	Potential Impact	Key Controls and Mitigating Factors	Status
1. Market share declines/developing new markets is slower than expected 	<ul style="list-style-type: none"> Income shortfall Loss of Woundcare partners Cost increase Loss of competitive advantage 	<ul style="list-style-type: none"> Effective alignment of strategy to consider the market changes and promote quality and cost savings New territories for revenue growth identified and developed Continued development of new products and projects to deliver growth to provide differentiation Marketing strategy to support partners and products 	 Increased risk Increased risk for the woundcare market as a whole and LiquiBand® in the US
2. Lack of innovation/insufficient focus on protection of intellectual property (IP) 	<ul style="list-style-type: none"> Loss of business Loss of market share Poor return on R&D investment Misidentification of new, competitive technology Commercial value of products not maximised Potential patent infringement 	<ul style="list-style-type: none"> Pipeline of new products/technologies identified and prioritised Implementation of improved Product Development Process and Project Management Office to ensure R&D projects progress to plan and action is taken if necessary Patented technologies reviewed for inclusion in new developments Strong links with partners, including Universities, to reduce the risk of missed opportunities Investment in clinical research, personnel and symposia to foster new approaches, and Key Opinion Leaders Consideration of licensing technology IP portfolio regularly reviewed and strong IP enforcement Early review of IP portfolios of acquisitions 	 No change
3. Industry consolidation/loss of business at key account level 	<ul style="list-style-type: none"> Income shortfall 	<ul style="list-style-type: none"> Reduced reliance on any one customer. Our biggest customer represents 12% of the Group's revenue All customers have contracts with agreed termination clauses Evaluation of opportunities to broaden reach into new markets, potentially by developing partnerships across numerous jurisdictions Unique products protected by know-how and/or IP Evaluation of new claims to support existing product range Development and launch of new products to secure existing customers and drive future growth 	 Increased risk US LiquiBand® business fell in 2019 and there is a competitive woundcare market
4. Increased global competition 	<ul style="list-style-type: none"> Income shortfall 	<ul style="list-style-type: none"> Full-service offering including strong regulatory and quality assurance, product development, product differentiation and clinical support to mitigate a pure cost of supply proposition Contracts have agreed set minimas which allow terms to be renegotiated or agreements terminated Diversified approach reduces the impact on any one project, partner or product 	 No change
5. Making the wrong or no acquisition/poor integration 	<ul style="list-style-type: none"> Impact on Group performance, revenue and market capitalisation Reputational loss 	<ul style="list-style-type: none"> Strategy set and M&A objectives defined Advisors appointed Detailed market intelligence and identification of targets Extensive due diligence process established Integration plan in place with key milestones 	 No change
6. Brexit Implications 	<ul style="list-style-type: none"> Higher costs Customs delays More complicated/longer product approvals Longer lead times for customers Reduced client willingness to develop business in the UK 	<ul style="list-style-type: none"> Comprehensive supply chain review completed Awarded Authorised Economic Operator status to allow quicker customs clearance Applied for HMRC approval for import duty recovery (cost saving and reduce duty risk post Brexit) Transferred certificates to BSI Netherlands Inventory levels increased at all sites Appointed EU Authorised Representative Liaised with partners to mitigate supply/customs issues 	 Decreased risk AMS is well prepared for Brexit

Key to strategic linkage in this report








Growth

Innovation

Operational
Excellence

Culture

Operational Risks

Risk	Potential Impact	Key Controls and Mitigating Factors	Status
7. Regulatory risk 	<ul style="list-style-type: none"> Inability to supply product Product launches delayed Unable to keep existing claims Loss of customer, revenue and reputation 	<ul style="list-style-type: none"> Stringent regulatory regime with an experienced team Clear 3–5 year regulatory strategy in place to manage MDR Third-party sourcing as contingency for regulatory delays Strong regulatory pathway ensures that the increased regulatory requirements are met to gain approvals Work with partners and distributors where they have local expertise Strictly controlled Quality Management System 	 No change
8. Vulnerability to single source supply 	<ul style="list-style-type: none"> Inability to supply specific products and exposed to price increases Increased cost of supply 	<ul style="list-style-type: none"> Dual source key components wherever possible Strong Vendor Risk Assessment process Hold levels of inventory to prevent operational issues arising from delays Business Interruption Insurance to cover significant interruption of supply 	 No change
9. Cyber-Risk 	<ul style="list-style-type: none"> Systems and data compromised Loss of sensitive data Loss of reputation 	<ul style="list-style-type: none"> Implementation of audit and testing recommendations IT administrator access levels tightened Compulsory Cyber Security training for all employees Ongoing user education 	 No change
10. Talent management 	<ul style="list-style-type: none"> Loss of key staff Insufficient talent pool for succession planning 	<ul style="list-style-type: none"> Succession and talent management process at SMT and mid-management levels to identify talent gaps and high potential Designed and developed a better grade system, allowing individuals to clearly see a career path Integrated total reward, performance and culture strategy to drive attraction, retention and employee engagement Care, Fair, Dare culture embedded across the Group Introduced better coaching and mentoring across SMT to aid personal development and engagement across teams 	 No change

Financial Risks

Risk	Potential Impact	Key Controls and Mitigating Factors	Status
11. Forex exposure 	<ul style="list-style-type: none"> Loss of income Shortfall in profit Market expectations missed 	<ul style="list-style-type: none"> Established treasury policy on forex exposure Robust forward forecasting of currency cash flows Aim to hedge 80% of forecast net cash flows for the next 18 months 	 No change

Since 31 December 2019, COVID-19 has become a key risk. At the time of printing this Annual Report we are managing this risk accordingly. Details on COVID-19 have been outlined in the Highlights (page 1), Chairman's Statement (page 8), and Chief Executive's Q&A (pages 9 to 11). Going concern has been addressed on page 56. More information, where necessary, has been provided in press releases and market announcements.

The Strategic Report has been prepared solely to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Group.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Group Strategic Report, which encompasses pages 4 to 47, was approved by the Board of Directors and signed on its behalf by:

Eddie Johnson

Company Secretary

7 May 2020

Board of Directors



Peter V Allen

Non-Executive Chairman



Biography:

Peter 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, six years as Chairman (2007–2013) of ProStrakan Group plc (Interim CEO 2010–11), three years as Chairman of Proximagen Neurosciences plc (2009–12) and five years as Chairman at Diurnal plc (2015–2020). He is a qualified Chartered Accountant.

Term of office:

Peter Allen was appointed as Non-Executive Chairman of the Group in January 2014.

Independent:

Not applicable.

External appointments:

Peter is currently the Non-Executive Chairman of AIM listed Clinigen plc and Abcam plc, together with privately owned Oxford Nanopore Technologies Limited and Istesso Limited.



Chris Meredith

Chief Executive Officer



Biography:

Chris Meredith 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 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. Chris has previously held senior positions at Smiths Industries, Cardinal Health, Banner Pharmacaps, and Aster Cepha. He was appointed Managing Director of Advanced Woundcare in February 2008, became Chief Operating Officer in January 2010 and was appointed as Chief Executive Officer in January 2011.

Term of office:

Chris Meredith was appointed Group Chief Executive Officer in January 2011.

Independent:

Not applicable.

External appointments:

Chris Meredith was appointed as a Non-Executive Director of Creavo Medical Technologies Ltd in May 2018. Creavo Medical Technologies Ltd is a UK-based, privately-held medical device Company that is developing innovative techniques and in no way conflicts with AMS.



Eddie Johnson

Chief Financial Officer and Company Secretary



Biography:

Eddie Johnson joined AMS in October 2011 and was appointed Group Financial Controller in November 2012. Prior to this he gained a first class degree in Maths and Computer Science from Keele University in 1993 and qualified as a Chartered Accountant in 1996. Since moving into industry in 1996 Eddie has held a number of senior finance roles in various industry sectors including, more recently, Head of Commercial Finance at Norcross plc and Western European Financial Controller for Sumitomo Electrical Wiring Systems.

Term of office:

Eddie Johnson was appointed as Chief Financial Officer and Company Secretary in January 2019.

Independent:

Not applicable.

External appointments:

Not applicable.

Key

* Denotes Chairman

C Company Secretary

A Audit Committee

R Remuneration Committee

N Nomination Committee



Penny Freer

Senior Independent
Non-Executive Director



Biography:

Penny Freer joined the Board of AMS in March 2010. 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.

Term of office:

Penny Freer was appointed as Senior Independent Non-Executive Director of AMS in March 2010.

Independent:

Yes.

External appointments:

Penny Freer is Chairman of AP Ventures LLP, a non-executive director of Empresaria Group plc, Crown Place VCT plc and The Henderson Smaller Companies Investment Trust plc and a founding partner of corporate advisory business, London Bridge Capital Partners.



Steve Bellamy

Non-Executive Director



Biography:

Steve Bellamy was formerly an Executive Director of Sherwood International plc and Brierley Investments' London operations. He has also held Non-Executive Directorships and advisory roles in a wide range of businesses, many of which were in the technology sector, and was most recently a Non-Executive Director at Michelmersh Brick Holdings plc. He is a New Zealand qualified Chartered Accountant.

Term of office:

Steve Bellamy was appointed as Non-Executive Director of AMS in February 2007.

Independent:

Yes.

External appointments:

Steve Bellamy is currently a Non-Executive Director at Caffyns plc.



Peter M Steinmann

Non-Executive Director



Biography:

Peter Steinmann 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.

Peter has held Directorships prior to joining AMS. Having worked throughout Europe and North America, he has extensive knowledge of the global medical devices market.

Term of office:

Peter Steinmann was appointed as Non-Executive Director of AMS in July 2013.

Independent:

Yes.

External appointments:

Peter is currently a Non-Executive Director of Calciscon AG, (in-vitro diagnostics), and a Director of Steinmann International GmbH.

Senior Management



Simon Coates

Group IS Manager

Biography:

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

Biography:

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 Six Sigma Master Black Belt.



Alan Richardson

Chief Operations Officer

Biography:

Alan joined AMS in November 2018 as Chief Operations Officer. Alan graduated with a B Eng honours degree in Chemical Engineering from Bradford University. Alan joined Yorkshire Chemicals as a Chemical Engineer and has since had 25 years of experience in the Medical Device, Pharmaceutical, Contract Research and Chemical Industries having worked for both Bristol-Myers Squibb and Convatec. Prior to joining AMS, Alan spent 11 years at Convatec and held a number of roles including Director, New Product Integration; Vice President Quality and Operations and Vice President of Advanced Woundcare Operations.



Cathy Tomlinson

Group HR Director

Biography:

Cathy joined AMS in May 2017 as Group HR Director. Cathy graduated with a degree in Business Studies from Liverpool John Moores University and completed a Masters in Business Administration at Strathclyde University. She spent five years working for Amazon and was head of HR for their final mile delivery business (which was a start-up business for Amazon).

Prior to this Cathy held senior HR roles for Xerox – supporting the outsourcing of managed services from government and blue-chip organisations to Xerox and Emirates Airline, based in Dubai, where she supported the growth of the airline in new geographies and acquisitions.



Pieter van Hoof

Group
Operations Director

Biography:

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.



Becky Walmsley

Business Unit Director,
Woundcare

Biography:

Becky joined AMS in July 2015 as Business Unit Director of OEM and Bulk Materials (now Woundcare). 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.



Jeff Willis

Business Unit Director,
Surgical

Biography:

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 Director of the Surgical Business Unit. He resides in the US.

Corporate Governance Report

“
The Group has focused on the new corporate governance rules and the important matter of Board succession.”

Peter Allen

Chairman and Chair of the Nomination Committee



Chairman's Introduction to Corporate Governance:

The Board is committed to the principles of good corporate governance which encompass leadership, effectiveness, accountability, remuneration and shareholder relations. Our shares are quoted on the AIM market and are subject to the AIM Admission Rules of the London Stock Exchange.

For the year ended 31 December 2019, Advanced Medical Solutions Group has chosen to comply with the 2018 UK Corporate Governance Code (Code), which was updated for financial years beginning on or after 1 January 2019. The Code sets a higher standard than the alternative Quoted Companies Alliance (QCA) Code and this aligns with our corporate governance principles. We comply as far as is practicable and appropriate for a public Company of the Group's size. We set out important details of our work during the year on the following pages.

All statements made are made against the Code.

Whilst exercising our governance responsibilities, the Group aims to create value and to honour our responsibilities to our key stakeholders, further details of which are outlined in our Engagement with Stakeholders as set out on pages 30 to 43.

In this report, we have provided additional insight into our approach to board succession. From our engagement with shareholders and proxy firms, Glass Lewis and ISS, we believe this will be welcomed.

Furthermore, in line with Code Provision 24 and general best practice, I have stepped down from the Audit Committee with effect from 6 May 2020. When invited, I will attend Audit Committee meetings as the Board considers my extensive accounting experience adds value to the discussion.

In addition, I have recently stepped down as Chairman of Diurnal plc in order to meet the corporate governance requirements regarding Board appointments.

Succession planning

AMS has a Board which functions well.

In accordance with the Code, the Group intends to refresh the composition of the Non-Executive Directors. This process will start at the 2020 AGM and over the next 3 years we will ensure that new non-executive directors are appointed allowing for a smooth and effective handover, particularly with respect to the Chairmanships of the Audit and Remuneration Committees.

Peter Steinmann will retire from the Board this year and will not put himself forward for re-election at the upcoming AGM. The Board would like to thank Peter for his contribution over the last six and a half years.

2020 AGM

In 2020 we will put forward all the Directors for re-election in accordance with Code Provision 18, except for Peter Steinmann as outlined above.

Steve Bellamy and Penny Freer, despite their tenures in excess of the nine-year limit outlined in Code Provision 10, are both considered to be independent of character and judgement, qualities which are exhibited through their contribution to Board meetings, and their Chairmanship of the Audit and Remuneration Committees respectively. In addition, both Steve and Penny have extensive experience with the Company and undertake ongoing training and development to maintain relevant knowledge and expertise. The Board rigorously self-assesses their performance, with a focus on independence and commitment and believes that they will continue to add value. The Company, therefore, complies with Code Provision 24, which requires there to be at least two independent Non-Executive Directors.

Peter Allen, Steve Bellamy and Penny Freer own shares in the Company as shown on page 80. These holdings have been highlighted to shareholders and are small. They are not considered to impact Non-Executive Director independence under Code Provision 10.

Role of the Board

The role of the Board is to establish the vision and strategy for the Group, to deliver shareholder value and 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 the Chief Executive Officer of the Company. The roles are clearly set out in writing and reviewed by the Board.

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

The Non-Executive Directors

Each of the Non-Executive Directors is 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 52. The Chairman, Peter Allen, was considered independent on his appointment.

The Operation of the Board

The Board has the responsibility 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 business and financial 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.

Corporate Governance Report continued

Matters considered by the Board in 2019 included:

- Directors' responsibilities
- Finance and operations review
- Annual budget
- Strategic plans
- Acquisition strategy
- Potential merger and acquisition targets
- Risk review
- Health, Safety and Environment
- Impact of Brexit
- Board evaluation
- Gender Pay Gap Reporting
- UK Corporate Governance Code
- Major capital expenditure
- Reports from the Board Committees

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. Steve Bellamy, Penny Freer and Peter Steinmann are members of the Audit, Remuneration and Nomination Committees. Peter Allen is a member of the 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 nine times in 2019. 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 2019:

Board Member	Board	Audit Committee	Remuneration Committee	Nomination Committee
Peter Allen	9/9	3/3	3/3	1/1
Steve Bellamy	9/9	3/3	3/3	1/1
Penny Freer	9/9	3/3	3/3	1/1
Chris Meredith	9/9	3/3*	3/3*	1/1
Peter Steinmann	9/9	3/3	3/3	1/1
Eddie Johnson	9/9	3/3*	N/A	N/A

* By invitation.

All Directors have access to the advice and services of the Company Secretary and Deputy 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.

Board Composition

The Board comprises the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. The Directors' profiles appear on pages 48 and 49 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.

Diversity

We recognise the importance of diversity at Board level and our Board members comprise different nationalities with a wide range of skills and experiences from a variety of business backgrounds. The female representation on the Board at 31 December 2019 was 16.6%. The Board is aware of the Hampton-Alexander target of 33%, and will take this into consideration during succession planning.

The Senior Management Team also has diverse experience. Its members comprise several nationalities and female representation was 33%. It is felt that this ratio is acceptable at this time, and will be kept under review.

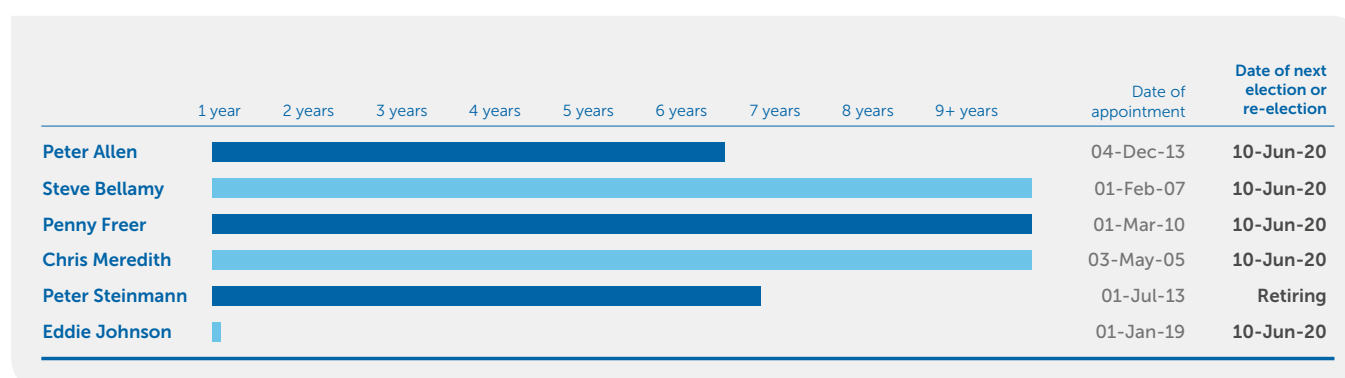
Terms of Appointment and Time Commitment

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 pages 73 and 74 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 2019 was six and the tenure is shown below. The Company follows the Code as far as is practicable. The explanations regarding the tenures and independence of the Board members is outlined on page 52.



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 2019 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. In 2020 all of the Directors will be put forward for re-election in accordance with Code Provision 18. The Notice of AGM provides details of those Directors seeking re-election.

Remuneration Committee

The Remuneration Committee comprises Penny Freer (Chairman), Peter Allen, Steve Bellamy and Peter Steinmann as laid out below:

Name	
Penny Freer	Chairman (since 25 June 2010, member since 1 March 2010)
Steve Bellamy	Member (since 20 February 2007)
Peter Allen	Member (since 4 December 2013)
Peter Steinmann (stepping down at 2020 AGM)	Member (since 1 July 2013)

Corporate Governance Report continued

The Committee has Terms of Reference that are reviewed at least annually, were updated at the end of 2018 and are available to view on the Company's Website 'www.admedsol.com'. The Deputy Company Secretary acts as Secretary to the Committee.

The Remuneration Committee met three times in 2019. 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 grants of shares under the Group's Long-Term Incentive Plan (LTIP). The report of the Committee is included on pages 62 and 77.

Nomination Committee

The Nomination Committee comprises Peter Allen (Chairman), Penny Freer, Steve Bellamy, Chris Meredith and Peter Steinmann as laid out below:

Name	
Peter Allen	Chairman (since 1 January 2014, member since 4 December 2013)
Chris Meredith	Member (since 1 January 2011)
Penny Freer	Member (since 1 March 2010)
Steve Bellamy	Member (since 20 February 2007)
Peter Steinmann (stepping down at 2020 AGM)	Member (since 1 July 2013)

The Committee 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 2019 and are available to view on the Company's 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 the re-election of Directors, succession planning and Board composition, having due regard for diversity, including gender
- Consider succession planning for Senior Management and membership of the Audit and Remuneration Committees

Audit Committee

The Audit Committee comprised Steve Bellamy (Chairman), Peter Allen, Penny Freer, and Peter Steinmann in 2019. Peter Allen stepped down from the Audit Committee on 6 May 2020.

Name	
Steve Bellamy	Chairman (since 6 June 2007, member since 20 February 2007)
Penny Freer	Member (since 1 March 2010)
Peter Steinmann (stepping down at 2020 AGM)	Member (since 1 July 2013)

Steve Bellamy, a qualified Chartered Accountant, chairs the Committee and has recent and relevant financial experience.

The Committee has Terms of Reference that are reviewed at least annually, were updated at the end of 2019 and are available to view on the Company's 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, Head of Financial Reporting, 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 58 to 61.

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 the 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. In light of the COVID-19 pandemic sensitivity analysis has been prepared to stress test forecasts and the Directors are confident the business can withstand the challenges and is a going concern, due to the significant headroom available.

All AMS sites are currently in operation and meeting the Group's commitments to maintain supply of its medical devices to healthcare partners and customers worldwide. However, the Group is now experiencing a slowdown in demand caused by the cancellation or postponement of elective surgeries and a reduction in accident and emergency treatment as a result of the global lockdowns. The Group currently estimates that its annual revenues will be impacted by approximately 3% to 5% for each month the widespread restrictions remain in place.

With regard to the Group's financial position, it had net cash at the year-end of £64.8 million (2018: £76.4 million). Net cash reduced in 2019 due to the acquisitions of Sealantis in January and Biomatlante in November. The Group has an undrawn five-year, £80 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 facility is provided jointly by the Group's existing banks HSBC and The Royal Bank of Scotland. The facility is subject to leverage and interest cover covenants and is unsecured.

While the current economic environment is very uncertain, in particular in relation to COVID-19, 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 for the medium-term once the impact of COVID-19 subsides. Further details of the

impact of COVID-19 can be found on pages 1 and 11. The Group has a high number of contracts with customers across different geographic regions who also with substantial financial resources, ranging from government agencies through to global healthcare companies. The Group has also considered the implications that may arise as a result of Brexit and developed appropriate risk management solutions to mitigate this risk.

Having considered the above, the Directors have concluded 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 62 to 77.

Modern Slavery Act

Prior to the introduction of the legislation the Company had implemented an Ethical Sourcing Policy and the requirements of the Modern Slavery Act build on that policy. During 2019, the Company has taken the following key steps to implement the requirements of the Modern Slavery Act 2015:

- Group-wide communication of the Anti-Slavery and Human Trafficking Policy through compliance training
- Reinforcement of existing policies covering ethical business practices and legal compliance
- Contractual commitments from supply chain partners to act in accordance with our Ethical Sourcing Policy
- Routine audits of suppliers include an assessment of compliance
- Continuing liaison with suppliers, contractors and business partners to establish their commitment to the eradication of slavery and human trafficking
- The full compliance statement can be found on the Company's website 'www.admedsol.com'.

Gender Pay Gap Reporting – Ensuring Opportunities for All

AMS believes in being an inclusive and diverse employer, where individuals are provided opportunities to develop and reach their full potential. We are confident that men and women are paid equally for doing equivalent jobs across the business.

Our latest report under the Gender Pay Gap Regulations (Equality Act 2010 (Gender Pay Gap Information) Regulations 2017) is available on the corporate website 'www.admedsol.com'.

Relations with Shareholders

The Strategic Report, which incorporates the Chairman's Statement, Chief Executives Q&A, Financial Review, Section 172 Statement, Stakeholder Engagement and Risk Management sections, together with other 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, and this is described in the Stakeholder Engagement section on pages 30 to 43.

The Notice for the Annual General Meeting is sent to shareholders at least 20 working days before the meeting. Details of how the 2020 AGM will be adapted in line with the latest guidance on COVID-19 are outlined below.

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

In line with the UK Government's latest guidelines on COVID-19, AMS will host its 2020 AGM as a closed meeting at the Group's Winsford office at 11.00 am on 10 June 2020. The health and safety of the Group's shareholders, as well as its employees and customers is of paramount importance and, as a result, it will not be possible for shareholders to attend the meeting in person. Any shareholders attempting to attend the AGM will be refused entry.

The AGM will be convened with the minimum necessary quorum of two shareholders. The outcome of the resolutions will, as usual, be determined by shareholder vote based on the proxy votes received. Shareholders are therefore strongly encouraged to vote by proxy on the resolutions contained in the AGM notice. Given the restrictions on attendance, shareholders are also strongly encouraged to appoint the "Chairman of the Meeting" as their proxy rather than another person who will not be permitted to attend the meeting. Further details on voting can be found in the AGM Notice.

The results of the AGM will be announced to the London Stock Exchange and placed on the Group's website, in the usual way, as soon as practicable after the conclusion of the AGM.

The Board would like to thank all shareholders for their continued support and understanding in these exceptional circumstances.

Eddie Johnson

Company Secretary

7 May 2020

Audit Committee Report







The Committee has remained focused on safeguarding shareholder value by ensuring effective governance, internal controls, risk management and financial reporting.”

Steve Bellamy

Chair of the Audit Committee



Attendance record and tenure in 2019

Member	Number of meetings held during the year when the Director was a member	Number of meetings attended	Committee tenure
Steve Bellamy (Chair)	3		13 years
Peter Allen (stepped down on 6 May 2020)	3		6 years
Penny Freer	3		10 years
Peter Steinmann	3		6 years

As set out in the biographical information on pages 48 and 49, the members of the Committee have a strong mix of skills, expertise and experience and as a whole have the relevant competencies for the sector in which we operate. The Board has determined that Steve Bellamy, a qualified Chartered Accountant in New Zealand, and Peter Allen, a member of the Institute of Chartered Accountants in England and Wales, were the Committee’s financial experts.

In line with Code Provision 24, Peter Allen stepped down from the Audit Committee with effect from 6 May 2020 in line with Best Practice. When invited, he will attend Audit Committee meetings as the Board considers his extensive financial experience adds value to the discussion.

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 and preventing 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, and consider a tender process where appropriate
- Review audit and non-audit services and fees
- Review the Committee’s 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 approved the External Audit fees for 2019.
- Reviewed the annual and half-yearly financial reports and related statements:
 - Assessed key accounting judgements
 - Assessed cost of capital
 - Assessed impact of Brexit
 - Assessed working towards releasing the Annual Report earlier following the Preliminary Statement.
- Reviewed and considered the significant matters in relation to the Financial Statements and how these have been addressed, including:
 - Going Concern – The 2018 UK Corporate Governance Code Provision 31 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. This is set out on page 56. 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 statement which was documented for the first time in 2016. Consideration has also been given to the impact of COVID-19.
 - Goodwill impairment, including the acquisitions of Sealantis and Biomatlante.
 - Accounting for the acquisitions and associated valuation of intangible assets acquired.

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 2019 audit.
- Reviewed the performance of the External Auditor and considered the re-appointment of Deloitte LLP as auditor for 2020 and recommended appointment to the Board.

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 re-appointment.
- Reviewed ongoing advice from previous audits.
- Engaged RSM to conduct a 'Healthcheck' of AMS control environment and assurance needs.

Risk Management

- Reviewed the key risks to the Group and the plans to mitigate these risks.
- Reviewed the scoring criteria and reporting to the Committee.

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.

Effectiveness of External Auditor

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, management and the Audit Committee, 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 the Audit Committee and management.
- Fees: – ensuring they are transparent, appropriate and communicated prior to the commencement of any work undertaken. Where variations occur, these are challenged 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 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.

Audit Committee Report

continued

Non-Audit Services

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 forecast expenditure may exceed £10,000 were approved by the Audit Committee. In 2019, Deloitte were engaged to provide due diligence on a potential acquisition. The fee was £175,000 (above the £10,000 threshold). Deloitte LLP has been the Group's External Auditor for 12 financial years. 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 re-appointment of Deloitte LLP as the Group's External Auditor for the next financial year. The Group will comply with the FRC 'Revised Ethical Standard 2019, which will restrict the services permitted.

Internal Audit

Internal Audit at AMS is managed and delivered by an external firm of Auditors, RSM UK, who provide this service under the direction and guidance of the Audit Committee. Against an agreed mandate, this function performs independent Internal Audit across the Group. An Internal Audit strategy and an annual Internal Audit plan are approved by the Audit Committee each year. Internal Audit reviews areas of potentially significant risk and substantial process improvement and provides 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 and the Group's employees as necessary 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 work plan.
- 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 follows up on the corrective actions taken.
- 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 are considered and acted upon. RSM UK attends Audit Committee meetings twice a year and updates the Audit Committee in writing ahead of each Committee meetings.

In 2019 the Internal Auditor reviewed previous audit reports and undertook a 'Healthcheck' of AMS' control environment and assurance needs. The recommendations of Internal Audit were accepted by the Audit Committee and acted upon.

The role of Internal Audit was reviewed in 2019. It was determined that internal audit should be focused on controls, driven by corporate governance and effective risk management, with audits focusing on key risks. A three-year Internal Audit plan was discussed in detail and agreed in March 2020.

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), TÜV Rheinland LGA Products GmbH, PCBC, Dekra and Lloyds Register, 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 Chief Financial Officer. The updated policies are then formally approved by the Board.

Risk Management and 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, Health and Safety and Corporate Governance.
- 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 and full year 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 carries out 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, the Netherlands and Germany, with appropriate equivalent systems in other jurisdictions
- 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.

Maximising long-term shareholder value is a key corporate objective for the Group, 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 Report on pages 44 to 47. 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, scores these risks to understand the significance and assigns 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 reports to the Audit Committee at least twice a year on the Risk Register. The Board or 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.

Steve Bellamy

Chair of the Audit Committee

7 May 2020

Remuneration Report

“
In 2019 the Committee has focused on the Group’s Remuneration Policy and compliance with best practice, along with increased shareholder engagement.”

Penny Freer

Chair of the Remuneration Committee







The Board presents the Remuneration Report for the year ended 31 December 2019.

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. The following table details members of the Committee, their attendance at meetings held during the year and their tenure:

Attendance record and tenure in 2019

Member	Number of meetings held during the year when the Director was a member	Number of meetings attended	Committee tenure
Penny Freer (Chair)	3		10 years
Steve Bellamy	3		13 years
Peter Allen	3		6 years
Peter Steinmann	3		6 years

Biographical information on the Committee members is set out on pages 48 and 49. 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 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 10 June 2020 asking them to consider and approve this Report. The activities the Remuneration Committee undertook in 2019 were:

Month	Principal Activities
March	<ul style="list-style-type: none"> • Discussion on the progress of shareholder consultation regarding the 2019 remuneration for the Chief Executive Officer and newly appointed Chief Financial Officer • Review of 2018 personal objectives • Review of proposed 2018 Executive Director and Senior Management Team (SMT) bonus and Deferred Annual Bonus awards • Discussion on 2019 personal objectives for the Executive Directors • Review of the 2019 corporate objectives • Review of LTIP performance criteria, how these are calculated, and consideration of holding periods • Review and approval of Gender Pay Report
October	<ul style="list-style-type: none"> • Review of 2019 personal objectives for Executive Directors • Ratification of LTIP and share option awards for 2019 (Executive Directors, SMT and key employees) • Ratification of Annual Performance Bonus and Deferred Annual Bonus awards for Executive Directors and SMT • Review of compliance with Executive Shareholding Policy for Executive Directors and SMT • Ratification of 2016 LTIP vesting (Executive Directors and Senior Management) • Review of the criteria for the Executive Shareholding Policy
December	<ul style="list-style-type: none"> • Consideration of the proposed 2020 salaries for the Executive Directors and SMT • Consideration of SMT LTIP awards for 2020 and the rules regarding these awards • Ratification of changes to the Executive Shareholding Policy • Review of results of Committee Self Assessment questionnaire, • Terms of Reference and Directors' Expenses Policy • Approval to run DSB Scheme and contribution levels in 2020 • Agreement of 2020 Remuneration Committee Meeting dates • Review of legal and corporate governance developments

Remuneration Report

continued

2019 Remuneration at a Glance

Components of remuneration

Fixed	Salary	+	Pension and other benefits	=	Fixed total		
Variable	Annual bonus	+	LTIP	+	DSB	=	Variable total
Total	Fixed	+	Variable	=	Total		

Fixed

Salary	£'000
CEO – Chris Meredith	300
CFO – Eddie Johnson	170

Pensions and other benefits

CEO – Chris Meredith	31
CFO – Eddie Johnson	18

Variable

Annual bonus

Bonus 2019	£'000
CEO – Chris Meredith	Nil
CFO – Eddie Johnson	Nil

Performance measures	Weighting	Overall achievement	2019 performance (% of overall maximum)
Financial	Group revenue	Below threshold	Nil
	Group PBT adjusted		
	EPS		
Personal	CEO – Chris Meredith	Maximum	100%
	CFO – Eddie Johnson		
Overall	100%		Nil¹

LTIP

2016 LTIP vesting for 2016–2019	£'000
CEO – Chris Meredith	426
CFO – Eddie Johnson	92

Performance measures	Weighting	Overall achievement	2019 performance (% of overall maximum)
Financial	Total shareholder return (TSR)	100%	50%
Financial	Earnings per share (EPS)	80.6%	40.3%
Overall	100%		90.3%

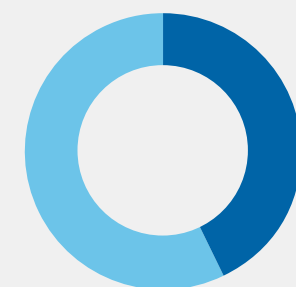
DSB

Gains on DSB vested	£'000
CEO – Chris Meredith	13
CFO – Eddie Johnson	58

¹ Nil bonus as threshold not achieved on financial measurements.

Total remuneration

CEO – Chris Meredith



Fixed
Variable

43%
57%

CFO – Eddie Johnson



Fixed
Variable

56%
44%

Shareholding requirements (as at 31 December 2019)

	Target	Actual shareholding as a % of target
CEO – Chris Meredith	200% of base salary	844%
CFO – Eddie Johnson	200% of base salary	133%

Remuneration Policy

Strategically aligned

The remuneration policy is aligned with our strategy and culture. Share ownership drives the right long-term behaviour. The Executive Directors are required to build a significant shareholding. This aligns their interests with the stakeholders' interest for sustainable long-term growth.

Pay for performance

The remuneration of our Senior Management is designed to promote the long-term success of the Company and reward value creation for our stakeholders. Assessment of short-term incentives under the Annual Performance Bonus is made against corporate, financial, strategic and other non-financial objectives. A proportion of the bonus is deferred for Executive Directors and Senior Management for a period of three-years. Long-term incentives are linked to long-term financial and strategic objectives.

Market competitive

All elements of our remuneration are reviewed regularly to ensure they remain market competitive to attract and retain talent, as well as to avoid excessive overpayment.

Employee commitment

We are committed to paying our people fairly and in a clear, transparent and simple way.

Remuneration Policy

The remuneration policy is formulated to provide a remuneration structure that is competitive and will allow the Company 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. At the same time, the Company seeks to ensure that it is 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. The policy aims to conform to best practice as far as reasonably practicable. The policy will continue to apply for 2020 and subsequent years, subject to ongoing review as appropriate. The Committee retains the right to exercise discretion. 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
- In considering the market positioning of reward elements, account will be taken of the performance of the Group and of each individual Executive Director

The Committee appointed Mercer (previously Kepler) in 2014 to provide advice on the remuneration of the Executives and SMT. 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.

Enhanced Shareholding Guidelines

Executive Directors and senior management are expected to accumulate and maintain a significant shareholding. In December 2019 the holding requirements for the Executive Shareholding Policy were increased to 200% and 100% of salary respectively for the Executive Directors and SMT to reflect Corporate Governance Best Practice and enhance their alignment with the interests of our stakeholders, and philosophy of share ownership. All SMT members met or exceeded the shareholding target in 2019, except the three members who have been with the Company for less than five years. If a SMT member does not comply at the end of the five year period the Committee retains discretion to decide on the appropriate sanction, which may include a simple 'warning' or reduction in the next LTIP grant, or a reduction of bonus opportunity.

Mercer was engaged from December 2018 to February 2019 to provide guidance on consulting with shareholders on the proposed 2019 salary increases for Chris Meredith (Chief Executive Officer) and Eddie Johnson (upon appointment as Chief Financial Officer). Chris Meredith's salary was increased by 7.8% in 2019 and Eddie Johnson received a salary of £170,000 upon appointment. Penny Freer (Senior Non-Executive Director and Chairman of the Remuneration Committee) spoke with the majority of the significant shareholders in early 2019 to discuss these proposed salary changes. The feedback was generally supportive, and any concerns raised were resolved. Mercer will again be engaged in early 2020 to review the performance criteria and holding periods for the 2014 LTIP, to ensure they are in line with corporate governance best practice. Mercer is the only advisor who provided material assistance to the Committee during 2019 in its consideration of matters related to Directors remuneration. Details of the engagement with Mercer in 2019 are set out below:

Advisors	Appointment and selection	Other services provided to the Company	Fees for Committee assistance
Mercer LLC	Appointed to provide ongoing advice to the Committee on various matters including Directors' remuneration, shareholder communication and other governance matters.	Advice on employee reward	£9,840

The Committee will continue to ensure our remuneration structure is aligned to the Company's culture that supports our long-term sustainable growth, whilst emphasising our underlying philosophy of share ownership.

Remuneration Report

continued

Compliance with the UK Corporate Governance Code 2018 (Code)

As a large AIM quoted company AMS has chosen to follow the Code on a 'comply or explain' basis. There were a number of changes to the Code in 2018. We are compliant in the majority of areas such as the inclusion of malus provisions in the LTIP, LTIP awards vesting at the normal vesting date for good leavers and share ownership guidelines for Executive Directors (Executive Shareholding Policy). For new appointments, the Committee will set pension contributions in line with those available to the wider workforce.

The areas where we are currently not compliant with the Code are:

Code provision	Description of non-compliance	Explanation/remedial action
36	Share awards granted for Executive Directors are not released for sale on a phased basis or subject to a total vesting and holding period of five years or more. The vesting period is three years. The Committee has not developed a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.	LTIP performance criteria are being reviewed with Mercer ahead of the 2020 LTIP awards. A formal policy for post-employment shareholding will be considered in 2020.
37	Remuneration schemes should include provisions that would enable the Company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.	Despite the LTIP and Deferred Annual Bonus Scheme having malus provisions, there is currently not a clawback provision. This will be considered with post-employment shareholding in 2020.
38	The pension contribution rates for Executive Directors, or payments in lieu, should be aligned with those available to the workforce.	The Company has implemented a policy that any future Executive Director appointments will receive the same pensions contributions as the workforce. The Committee does not consider the current contributions of 10% to be excessive.

We aim to voluntarily seek advisory shareholder approval for our Remuneration Report to provide accountability and for shareholders to express their views on the remuneration policy and its implementation. All feedback provided by shareholders helps inform the Committee's approach to governance of the remuneration policy. The Committee welcomes any feedback on the remuneration policy. If shareholders have any specific comments on the Remuneration Policy, the Committee maybe contacted through the Company Secretary (companysecretary@admedsol.com).

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, Glass Lewis 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 were consulted in advance about changes to the remuneration policy in 2019.

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. The cost of living increase for the 2019 financial year was 2% for the Senior Management Team and the broader employee population. However, the Committee determined to increase the basic salary for Chris Meredith (Chief Executive Officer) by 7.8%, which was discussed with shareholders by Penny Freer (Chairman of the Remuneration Committee). Eddie Johnson (Chief Financial Officer) was awarded a salary of £170,000, below that of his predecessor, as the scope of his role does not include operational oversight.

Statement of Voting at General Meeting

At the 2019 AGM, the percentages of votes cast 'for', and 'against' in respect of the Directors' Remuneration Report were as follows:

Resolution	Number of shares voted	Votes cast 'for'	Votes cast 'against'
To approve the Directors' Remuneration Report	113,671,023	95.58%	4.42%

Overview of Directors' and Senior Management Remuneration Policy

Policy Table

Element of remuneration	Purpose and how it supports strategy	How the element operated and maximum opportunity	Framework used to assess performance
Base Salary	<p>To provide competitive fixed remuneration.</p> <p>To attract, retain and motivate Executive Directors and Senior Management 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 65 salary levels of Executive Directors and Senior Management 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 on page 70. A review was last carried out in December 2019. There is no prescribed 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.</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 Senior Management, the Committee retains the discretion to award a higher increase than the UK workforce.</p> <p>The Committee used this discretion when awarding Chris Meredith (CEO) a 7.8% increase in 2019.</p>
Benefits	<p>To attract, retain and motivate Executive Directors and Senior Management of the right calibre to deliver the Company's strategy by providing a market competitive level of benefit provision.</p>	<p>A range of benefits 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
Annual Performance Bonus	<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 Performance 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 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 and a values assessment based on Care, Fair, Dare.</p> <p>Executive Directors can receive an Annual Performance Bonus, up to the percentage of salary set out on page 70.</p> <p>Senior Management are entitled to receive up to 50% of their salary in bonus, of which 77% of the award is dependent on financial performance targets and 23% on personal objectives and Care, Fair, Dare. 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> <p>For Executive Directors and Senior Management, if the Financial thresholds are not met there is no bonus payable.</p>

Remuneration Report

continued

Overview of Directors' and Senior Management Remuneration Policy continued

Policy Table

Element of remuneration	Purpose and how it supports strategy	How the element operated and maximum opportunity	Framework used to assess performance
Deferred Annual Bonus (DAB)	Provides mechanism to exercise malus provisions.	<p>Following advice from Mercer regarding corporate governance developments in remuneration, the Committee introduced a Deferred Annual Bonus (DAB) Scheme whereby both Executive Directors and the SMT are required to defer up to 25% of their Annual Performance Bonus for three years. The DAB was approved by shareholders at the 2014 AGM.</p> <p>The DAB introduced malus provisions which are laid out on page 69. There is no provision for clawback.</p>	N/A
Deferred Share Bonus Plan (DSB)	To align the interests of the Executive Directors, the SMT and the employees with shareholders, incentivise long-term value creation and as a key tool for retention of staff.	The Deferred Share Bonus Plan (DSB) is available to all employees and allows them to elect 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 in order to receive additional free shares from the Company. It acts as a valuable retention tool aligning employees' interests with those of shareholders. The DSB first operated in 2007. The existing scheme received shareholder approval at the 2015 AGM.	N/A
Long-Term Incentive Plan (LTIP)	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 levels for 2019 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>The 2014 LTIP introduced malus provisions which are laid out on page 69. There is no provision for clawback.</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 Group over a three-year period.</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.</p> <p>The performance measurement for EPS will be based on the percentage increase of the Group's EPS over a three-year period commencing on the 1 January of the year the Award is made. Awards will vest on a sliding scale from 25% to 100% for an average annual growth rate of EPS from target EPS of 5% to an average annual growth rate increase of EPS of 20% over the vesting period. No awards will be made for an average annual growth rate of EPS below target EPS.</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 Group's performance on these measures is consistent with the underlying performance of the business.</p>

Element of remuneration	Purpose and how it supports strategy	How the element operated and maximum opportunity	Framework used to assess performance
Pension	To provide a market competitive remuneration package to enable the recruitment and retention of Executive Directors and Senior Management.	<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 a fixed 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, except for those who have opted out.</p> <p>Any new Executive Directors joining the Group will have a pension in line with the workforce.</p>	N/A

Malus provisions – 2014 LTIP/DAB

The 2014 LTIP and DAB incorporate malus provisions. For LTIPs and DABs awarded from 2014 onwards, the Committee may in its absolute discretion resolve to vary an Award in the event that any of the Financial Statements or results for the Company, or for any Group Company, are materially restated (other than restatement due to a change in accounting policy or to rectify a minor error) or if, in the reasonable opinion of the Committee and following consultation with the relevant employing Group Company, a participant has deliberately misled the management of the Company and/or the market and/or the Company's shareholders regarding the financial performance and/or technical information of any Group Company or any Subsidiary, or a participant's actions amount to serious misconduct or conduct which causes significant financial loss for the Company, any Group Company and/or the participant's Business Unit.

If the Committee determines that the malus provision applies then they may resolve that the number of shares comprised in an Award that are not vested shares and/or vested shares in the case of an Option where the Option has not yet been exercised should be reduced (to Nil if appropriate) and/or impose further conditions on an Award.

Remuneration Report

continued

Directors' Emoluments – Single Figure of Remuneration

The various elements of the remuneration for each Director in 2018 and 2019:

£'000	Salary and fees		Annual Performance Bonus		Deferred Bonus		LTIPs vested		Gains on DSBs vested ¹		Benefits		Pensions		Total Remuneration	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Chris Meredith	300	278	–	127	–	42	426	407	13	13	1	1	30	28	770	896
Eddie Johnson ²	170	–	–	–	–	–	92	–	58	–	1	–	17	–	338	–
Peter Allen	74	73	–	–	–	–	–	–	–	–	–	–	–	–	74	73
Steve Bellamy	44	43	–	–	–	–	–	–	–	–	–	–	–	–	44	43
Penny Freer	44	43	–	–	–	–	–	–	–	–	–	–	–	–	44	43
Peter Steinmann	38	37	–	–	–	–	–	–	–	–	–	–	–	–	38	37
Mary Tavener ³	–	215	–	81	–	27	–	377	–	4	–	1	–	22	–	727
Total	670	689	–	208	–	69	518	784	71	17	2	2	47	50	1,308	1,819

¹ Gains on DSBs vested is based on the share price at vesting date. Details of the DSB can be found on page 68.

² Eddie Johnson was appointed as Chief Financial Officer on 1 January 2019.

³ Mary Tavener resigned as Chief Financial Officer on 31 December 2018.

The table above summarises the payments made and additional amounts earned by the Executive Directors and Non-Executive Directors for the 2018 and 2019 financial years. The Chairmen of the Audit Committee and Remuneration Committee (Steve Bellamy and Penny Freer) received a supplementary fee of £3,000 for chairing a Committee. The Deferred Annual Bonus recorded in the table above is in respect of the 2018 financial year, to be paid or deferred into shares, which will not be received until 2022. No Annual Performance Bonus was payable for 2019, and as a result the Deferred Annual Bonus scheme was not utilised. The Executive Directors were granted further LTIPs as detailed on page 72. 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 1.5% for Executive Director base salary in 2020.

The Group's UK employees also received a 1.5% salary increase for the 2020 financial year.

Director	2020	2019	% increase
Chris Meredith	£304,500	£300,000	1.5%
Eddie Johnson (appointed 1 January 2019)	£172,550	£170,000	1.5%

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 2020 will be 150% of salary for the Chief Executive Officer and 75% for the Chief Financial Officer. There is no bonus payment if the minimum financial thresholds are not met.

The personal objectives for the Executive Directors are set on an individual basis and for the year ended 31 December 2019 were linked to the corporate, financial, strategic and other non-financial objectives of the Group.

The table below summarises 2019 performance against the targets:

Performance Measures	Weighting	Threshold £m	Target £m	Stretch £m	Achievement £m	2019 result (% of overall maximum)
Group revenue	28.33%	107.4	110.7	116.3	Below threshold	0.0%
Adjusted Profit Before Tax	28.33%	28.2	29.1	30.6	Below threshold	0.0%
Adjusted fully diluted Earnings Per Share	28.33%	10.1	10.4	10.9	Below threshold	0.0%
Personal objectives / values assessment	15.0%	The Remuneration Committee has assessed that the Executive Directors fully achieved their personal objectives for the year.			Maximum	15.0%
Total	100.0%					0.0%

In 2019 threshold was not achieved in any of the financial performance criteria, and therefore no bonus will be payable in 2020 for the 2019 Financial Year. However, the Executive Directors performance against their personal objectives was still reviewed by the Remuneration Committee; if financial thresholds had been met then up to 22.5% of salary would have been payable to the Chief Executive Officer and 11.5% of salary would have been paid to the Chief Financial Officer (Eddie Johnson) upon achievement of personal objectives. The Committee considers the 2020 objectives to be commercially sensitive as they give our competitors insight into our business plans and therefore are not detailed in this Report.

Overall the 2019 bonus payments made in respect of the 2018 financial year were as follows:

Director	Bonus paid in 2019 (2018 Financial Year)	Deferred Annual Bonus	Percentage of salary (total bonus)	Maximum % of salary
Chris Meredith	£169,093	£42,273	50.6%	120%
Eddie Johnson (bonus for 2019 reflects Group Financial Controller role)	£29,624	£7,261	48.4%	50%

Vesting of LTIPs for the year ended 31 December 2019

The LTIPs granted on 18 April 2016 to the Executive Directors under the 2014 Long-Term Investment Plan were based on performance criteria during the three-year period as detailed below. The LTIPs vested on 18 April 2019. The performance conditions were:

- 50% of the Award was subject to a performance condition based on the Company's Total Shareholder Return (TSR) performance over the performance period (90 dealing day period to the date of grant measured against the 90 dealing day period prior to the three-year anniversary following the date of grant) relative to the constituent companies of the AIM Healthcare Share Index over the performance period
- 50% of the Award was subject to a performance condition based on the growth in the Company's underlying diluted earnings per share (EPS) over the period from 1 January 2016 to 31 December 2018

The Performance Targets were as follows:

TSR Performance	Vesting %
Below 50% of the comparator Group	0%
Between 50% and 75% of comparator Group	Straight-line vesting between 25% and 100% based on the ranking in the comparator Group
Above 75% of comparator Group	100%
EPS average annual growth rate	Vesting %
<5% average annual growth rate	0%
5%–20% average annual growth rate	Straight line vesting between 25% and 100%

Following a review of the performance conditions of the LTIPs granted in April 2016, 90.3% of the award vested in April 2019. The Company achieved 100% vesting for the TSR element (2018: 100% vesting), ranking 8th out of the 60 comparators and 80.6% vesting for the EPS element (2018: 74.5% vesting) with average annual EPS growth of 16.1%.

In the Directors' emoluments single figure remuneration table on page 70, the figure attributable to the LTIPs granted on 18 April 2019 is calculated by multiplying the number of shares in respect of which the Award vested by the share price on the vesting date.

Remuneration Report

continued

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

In 2019 the Committee considered it appropriate to approve LTIP awards based on 200% of salary for Chris Meredith and 75% of salary for Eddie Johnson. Both awards represent the maximum allowed under the remuneration policy and formed part of the shareholder consultation.

On 24 April 2019 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	200% of salary	3.2875	182,510	600,000	See below
Eddie Johnson	Nil-cost option	75% of salary	3.2875	38,783	127,500	See below

EPS – Three financial years to 31 December 2021.

TSR – Three years to 24 April 2022 (average share price of 90 days prior to grant compared to average share price of 90 days prior to vesting).

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:

Director	As at 1 January 2019	Exercised in the year	Issued in the year	Lapsed in the year	As at 31 December 2019	Market price at date of grant (p)	First vesting date
Chris Meredith	146,939	–	–	–	146,939	151.50	10 September 2018 (vested)
	143,553	–	–	13,925	129,628	184.60	18 April 2019 (vested)
	109,571	–	–	–	109,571	246.69	6 April 2020
	90,344	–	–	–	90,344	308.00	13 April 2021
	–	–	182,510	–	182,510	328.75	24 April 2022
Eddie Johnson (appointed 1 January 2019)	34,235	–	–	–	34,235	132.00	10 September 2018 (vested)
	31,148	–	–	3,022	28,126	184.60	18 April 2019 (vested)
	23,775	–	–	–	23,775	246.69	6 April 2020
	19,603	–	–	–	19,603	308.00	13 April 2021
	–	–	38,783	–	38,783	328.75	24 April 2022

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 71. 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 2019, Chris Meredith exercised Nil LTIPs (2018: Nil) and Eddie Johnson Nil LTIPs (2018: Nil). Awards made have no performance re-testing facility.

Approach to Remuneration of Executive Directors on Recruitment

In the case 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, market data, internal relativities and their current salary. New appointments will be eligible to receive a personal pension, medical insurance benefits and to participate in the Company's share schemes.

In line with Best Practice for new Executive Director appointments, the Committee will set pension contributions in line with rates available to the wider workforce.

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 related to the supplementary fee paid to the Chairmen of the Audit and Remuneration Committees.

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.	Reflects time commitments, responsibilities of each role and fees paid.	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. 2019 fee levels are set out on page 70 and those fees were increased by 1.5% in 2020 in line with the general workforce.	Non-Executive Directors do not participate in variable pay arrangements 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
Eddie Johnson (appointed 1 January 2019)	1 January 2019	Rolling Contract	12
Non-Executive Directors			
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 Performance 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 Performance 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
Annual Bonus/DAB		
Good Leaver	Annual Performance Bonus payment would be negotiated as part of the terms of the leaving arrangements (at the discretion of the Remuneration Committee) Unvested Deferred Annual Bonus share awards vest at the normal vesting date (or earlier at the Remuneration Committee's discretion)	No automatic entitlement to Annual Performance Bonus on a pro-rata basis (at the discretion of the Remuneration Committee)
Bad Leaver	Not applicable	Individuals lose the right to their Annual Performance Bonus and unvested Deferred Annual Bonus share awards
Change of control	Annual Performance 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 Performance Bonus is paid only to the extent that any performance conditions have been satisfied and are pro-rated for the proportion of the financial year worked to the effective date of change of control
LTIP		
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 on cessation of employment	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	Unvested awards vest and a pro-rata reduction applies for the proportion of the vesting period not served

Upon exit or change of control Deferred Share Bonus (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) which take effect as a result of a takeover bid.

Payments to past Directors

No payments were made to past Directors during the year ended 31 December 2019.

Payments for Loss of Office

No payments for loss of office were made during the year ended 31 December 2019.

Statement of Directors' Shareholdings and Share Interests

Director	Beneficially owned ¹ at 31 December 2018	Beneficially owned ¹ at 31 December 2019	Outstanding LTIP awards at 31 December 2019	Outstanding DAB awards at 31 December 2019	Outstanding share awards under DSB at 31 December 2019	Shareholding as a % of Issued Share Capital at 31 December 2019
Chris Meredith	1,491,943	1,514,804	658,992	57,977	27,556	0.70%
Eddie Johnson	77,555	98,787	144,522	22,542	33,886	0.05%

Executive Directors are required to hold shares worth 200% of pre-tax annual salary in Company shares in compliance with the Executive Shareholding Policy. This was increased from 100% of pre-tax annual salary in December 2019. Compliance with this policy as at 31 December 2019 is shown below:

Director	Shares held ²	Vested DSBs	LTIPs (50% of vested / unexercised LTIPs)	DAB Awards	Total Shares	Target shareholding target (£)	Actual shareholding value (£)	% vs holding target
Chris Meredith	1,480,127	34,677	138,284	57,977	1,711,065	600,000	5,064,751	844%
Eddie Johnson	19,044	79,743	31,181	22,542	152,510	340,000	451,428	133%

¹ Includes all shares beneficially held by the Executive Director (or their spouses and children) and vested DSBs.

² 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 2019.

Non-Executive appointments at other companies

Chris Meredith has been a Non-Executive Director of Creavo Medical Technologies Ltd since May 2018. Creavo Medical Technologies Ltd is a UK-based, privately-held medical device company that is developing innovative techniques. There is no conflict of interest with AMS.

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 Performance 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 Performance Bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown for each of these years.

Year ended 31 December	2015	2016	2017	2018	2019
Total remuneration (£'000)	741	784	1,040	896	770
Annual Bonus (% of maximum)	78.76%	72.5%	82.6%	50.6%	0%
LTIP vesting (% of maximum)	55.1%	50%	76.9%	87.3%	90.3%

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	2018 (£m)	2019 (£m)	change %
Staff costs	33.6	33.2	-1.2%
Dividends ¹	2.5	3.0	20%
Tax	5.8	5.4	-8.6%
Profits for the year attributable to owners of the parent	22.5	18.9	-15.6%

¹ The dividend figures relate to amounts payable in respect of the prior year.

Remuneration Report

continued

£1,026,000 (2018: £1,436,000) of the staff costs figure relates to pay for the Directors, of which £568,000 relates to the highest paid Director (2018: £712,000). Total pension contributions were £1,309,000 (2018: £1,218,000) and for the highest paid Director £30,000 (2018: £28,000).

During 2019, distributions to shareholders included a dividend of £1,931,000 paid on 14 June 2019 (2018: £1,593,000) and £1,074,000 paid on 25 October 2019 (2018: £901,000). It is proposed that a dividend of 1.05p per share be paid on 19 June 2020. Further details are provided in Note 14 on page 109.

Gender Pay Gap Reporting – Ensuring Opportunities for All

The full compliance statement can be found on the Company's website 'www.admedsol.com'.

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 for shares in the Company under the 2019 Share Option Plan (SOP), 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 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 119 to 123.

Company Share Option Plan (CSOP)/Executive Share Option Scheme

The Company Share Option Plan (CSOP) and Executive Share Option Scheme reached their ten year limit in 2019. The final awards under these schemes were made on 24 April 2019. These schemes were replaced at the 2019 AGM by the 2019 Share Option Plan (SOP).

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. The last remaining options under this scheme will either be exercised or lapse in 2020.

2019 Share Option Plan (SOP)

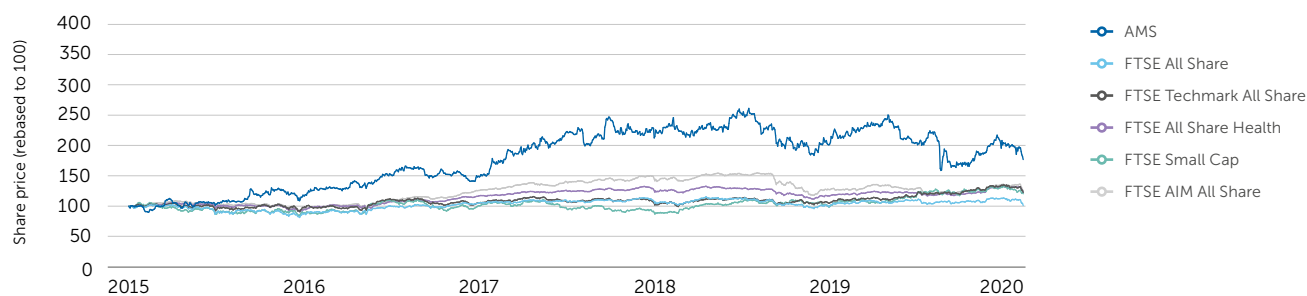
On 5 June 2019 the Company received approval for the 2019 Share Option Plan (SOP). The SOP allows for employees to be granted either approved or unapproved options. Under the approved part of the plan relevant employees can receive up to £30,000 of Company shares by reference to the market value of these shares on the grant date and to benefit from the growth in value of those shares.

Share Performance – 2019

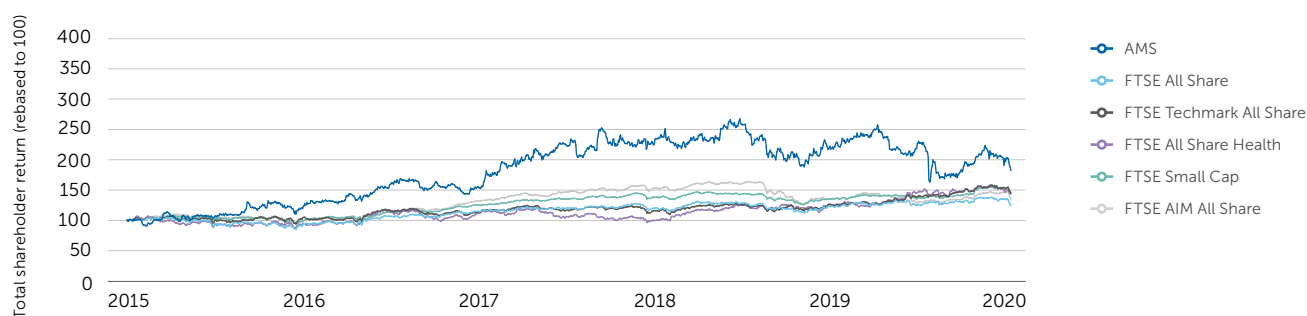
The opening share price for 2019 was 275p and the closing price, on the last trading day of the year, was 296p. The range during the year was 354.5p (high) and 225p (low) (Source: daily official list of the London Stock Exchange).

Five-year Share Performance

For the five-year period ending 28 February 2020 the Advanced Medical Solutions Group plc share price has outperformed the FTSE All-Share Index by 76%, FTSE Techmark All-Share Index by 54%, FTSE All-Share Health Care Index by 56%, the FTSE Small Cap Index by 55%, and FTSE AIM All-Share Index by 53%.



For the five-year period ending 28 February 2020 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 58%, FTSE Techmark All-Share Index by 38%, FTSE All-Share Health Care Index by 36%, the FTSE Small Cap Index by 39%, and FTSE AIM All-Share Index by 48%.



Approved on behalf of the Board.

Penny Freer

Chair of the Remuneration Committee

7 May 2020

Directors' Report

For the year ended 31 December 2019

Strategic Report

The Group has complied with the requirements of S414C(11) of the Companies Act 2006 by including certain non-financial information within the Strategic Report. The Strategic Report can be found on pages 4 to 47. 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. The Group has complied with Sch 7.11(1)(b) and Sch 7.11B(1).

Principal Risks and Uncertainties

A description of the Group's principal risks and uncertainties can be found on pages 46 and 47 in the Strategic Report. This includes the Financial Risk relating to Forex Exposure. The potential impact and key controls and mitigating factors relating to this risk are outlined on page 47.

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 2019 £3,195,000 (2018: £3,079,000) on research and development. In accordance with International Accounting Standards, a further £2,355,000 (2018: £1,392,000) has been capitalised. Following a review of development £nil impairments were made in 2019 (2018: £nil).

Dividends

The Group made a profit before tax for the year to 31 December 2019 of £24.3 million (2018: £28.3 million). The Directors are recommending payment of a final dividend of 1.05p per share (2018: 0.90p per share). The final dividend will, subject to shareholders' approval, be paid on 19 June 2020 to shareholders on the register at the close of business on 29 May 2020. This will make a total dividend of 1.55p for the full year (2018: 1.32p).

Post-Balance Sheet Events

Since 31 December 2019 the COVID-19 pandemic has impacted the Group. Further details on COVID-19 can be found in the Chairman's Statement (page 8), Chief Executive's Q&A (pages 9 to 11) and Risk Management Section (pages 44 to 47). The impact on going concern is outlined on page 56.

Key Performance Indicators

The Directors monitor the performance of the Group on a regular basis with particular reference to the relevant Key Performance Indicators (KPI's). The Group updated its KPI's in 2018 to ensure that they continue to be the most relevant for the Group and are linked to the Group strategy (see the Strategic Pillars on pages 12 and 13). Further detail and performance against the KPI's is provided on pages 16 and 17. The KPI's for 2019 and 2020 are as follows:

- Revenue growth at constant currency (%)
- Adjusted¹ diluted EPS (%)
- % of spend on R&D and Innovation
- % of sales from new products launched in the previous five years
- Year-over-year change of our standard cost base (%)
- Customer service (OTIF)²
- Staff retention/turnover (%)
- Employee Engagement Score (%)

Capital Structure

A five-year, £80 million, multi-currency, revolving, credit facility was agreed in December 2018 with an accordion option under which AMS can request up to an additional £20 million on the same terms. The facility is provided jointly by the Group's banks HSBC and The Royal Bank of Scotland. The facility is subject to leverage and interest cover covenants and is unsecured.

The Company's Ordinary Shares are admitted to, and traded on, the Alternative Investment Market (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 on page 118.

There are no specific conditions on the following scenarios:

- No special rights of control and no restrictions on the size or transfer of shares
- All shares are fully paid
- No special conditions in the Articles of Association under change of control situations

¹ Before exceptional items and amortisation of acquired intangible assets.

² OTIF – 'On time in full'.

Going Concern

The Directors continue to adopt the going concern basis in preparing the Financial Statements as outlined in the Corporate Governance Report on page 56.

Non-Financial Reporting Statement

In compliance with the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, our Non-Financial Reporting Statement is set out on page 43.

Share Capital and Issue of Ordinary Shares

At 8 April 2020, the Group's issued share capital comprised:

	Number	£000	% of Issued Share Capital
Ordinary Shares of 5p each	214,932,064	10,746	100

The issued share capital of the Company is set out in Note 27 to the Financial Statements on page 118.

Substantial Shareholdings

As at 8 April 2020, 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.

	8 April 2020	% of Issued Share Capital
Octopus Investments Limited	22,744,483	10.58
Canaccord Genuity Group Inc	15,537,008	7.23
AXA SA	14,681,511	6.83
BlackRock Inc	10,535,960	4.90
Investec Group	9,976,667	4.64
Groupama	9,787,629	4.55
Charles Stanley Group	8,410,871	3.91
AEGON	7,258,849	3.38
Aviva plc	6,687,377	3.11

There have been no significant changes to the substantial shareholdings between 31 December 2019 and 8 April 2020. The top shareholders listed above remain the same as 31 December 2019.

Directors

The names of the current Directors together with brief biographies are shown on pages 48 and 49.

The Directors who were in office during the year ended 31 December 2019, 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 72.

Re-appointment of Directors

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. At the forthcoming Annual General Meeting to be held on 10 June 2020, all Directors will be put forward for re-election.

At the forthcoming Annual General Meeting on 10 June 2020 the entire Board will retire and formally offer themselves for re-appointment, with the exception of Peter Steinmann who will step down as a Director. This is part of our formal succession planning strategy outlined on page 52.

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 73.

Directors' Report continued

Directors and their Interests

The Directors of the Company at 31 December 2019 and their interests, all of which are beneficially held, in the share capital of the Company were:

Director	Ordinary Shares of 5p each at 31 December 2019				Ordinary Shares of 5p each at December 2018			
	Shares	DSBs	LTIPs	Deferred Bonus ²	Shares	DSBs	LTIPs	Deferred Bonus ¹
Chris Meredith	1,503,377	38,983	658,992	57,977	1,484,395	19,164	343,468	77,756
Eddie Johnson ³	59,426	73,247	144,522	22,542	36,535	57,566	108,761	20,333
Steve Bellamy	100,000	–	–	–	100,000	–	–	–
Peter Allen	50,000	–	–	–	50,000	–	–	–
Penny Freer	13,888	–	–	–	13,888	–	–	–
Peter Steinmann	–	–	–	–	–	–	–	–

¹ Deferred Bonus shares are in respect of the bonus earned relating to the 2015, 2016 and 2017 financial years.

² Deferred Bonus shares are in respect of the bonus earned relating to the 2014, 2015, 2016, 2017 and 2018 financial years.

³ Appointed as a Director on 1 January 2019.

Further details of the Directors' remuneration and benefits are included in the Remuneration Report on pages 62 to 77.

The Board has agreed on 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 conflicts of 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 – Equal Opportunities and Development

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 make responsible adjustments to retrain the employee if required and offer suitable alternative employment within the Group.

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.

Please refer to pages 32 to 35 of the Stakeholder Engagement section to see further information on Employees.

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 2019 Group Share Option Plan (2019 SOP), which was approved at the 2019 AGM. Prior to 2019 options were granted under the Company Share Option Plan (CSOP).

The 2019 SOP has been approved by HMRC and allows employees to receive up to £30,000 of options in a tax-efficient manner. Options granted under this are not offered at a discount. Further details are included in the Remuneration Report on pages 62 to 77.

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 of the DSB Scheme are provided in the Remuneration Report on page 68. 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 and the last of these will vest in 2020.

1,417,000 Ordinary Shares (2018: 831,000) were issued during the year to employees exercising their share options and options over other share incentive schemes. Details are given in Note 27 to the Group Financial Statements.

Health and Safety

The Group is committed to high standards in health, safety and environmental performance. The Group provides safe places and systems of work, safe plant and machinery, safe handling of materials and ensures appropriate information, instruction and training are given. Employees are encouraged to identify 'near misses' to ensure preventative actions are taken to avoid any unsafe work practices. 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. Further details are outlined in the Stakeholder Engagement section on pages 30 to 43.

Environment

AMS is focused on reducing our impact on the environment. The Group has operations across a number of countries, where local management drive environmental performance. Specific site-level objectives are established to ensure compliance with local legislative requirements. The Company aims to adopt responsible environmental practices and to give consideration to minimising the impact on the environment. Detail of actions taken in 2019 to minimise our impact are outlined in the Stakeholder Engagement section on pages 30 to 43.

Evaluations of capital investment opportunities are ongoing to further reduce energy consumption. 2020 will demonstrate a significant investment in both infrastructure and expertise. The UK manufacturing sites will comply with the new Streamlined Energy Carbon Reporting (SECR) legislation, that will continually drive us to improve energy efficiency. An analysis of how we performed in 2019 can be found on page 39.

Corporate Social Responsibility

AMS is committed to ensuring that the business operates in a responsible way. Please see the Stakeholder Engagement section on pages 30 to 43 for an analysis of the key areas of employees, ethical standards, environment, Health and Safety and customer and community.

Political Donations

No political donations which require disclosure in accordance with the Electoral Acts 1997 to 2012 were made by the Group during the year.

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 International Accounting Standard Regulation and have elected to prepare the Parent Company Financial Statements in accordance with the United Kingdom Generally Accepted Accounting Principles (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.

Directors' Report

continued

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
- 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, IAS 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
- Assess 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
- 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
- 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 Section 418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as Auditor and a resolution to re-appoint 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 10 June 2020 are contained in the Notice of the Annual General Meeting. 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 10, to be proposed at the meeting, would be to allow the Company to allot shares conferred by Section 551 of the Companies Act 2006.

The effect of Resolution 11, to be proposed at the meeting, would be to dis-apply the statutory pre-emption rights conferred by Section 570 of the Companies Act 2006.

The effect of Resolution 12, to be proposed at the meeting, would be to allow the Company to purchase its own shares conferred by Section 701 of the Companies Act 2006.

Annual General Meeting

The Annual General Meeting will be held at 11.00 am on 10 June 2020. In line with the UK Government's latest guidelines on COVID-19, AMS will host its 2020 AGM as a closed meeting at the Group's Winsford office. The health and safety of the Group's shareholders, as well as its employees and customers, is of paramount importance and, as a result, it will not be possible for shareholders to attend the meeting in person. Any shareholders attempting to attend the AGM will be refused entry.

Further details can be found in the Notice of the Annual General Meeting.

Other Information

Other information relevant to the Director's Report may be found in the following sections of the Annual Report:

Information	Location in the Annual Report
Principal activities, business review and future developments	Chairman's Statement and Chief Executive's Q&A – pages 8 to 11
Results	Financial Statements – pages 84 to 125
Corporate Governance	Corporate Governance Report – pages 52 to 57
Directors' remuneration, including the interests of the Directors and secretary in the share capital of the Company	Remuneration Report – pages 62 to 77
Principal Risks and Uncertainties	Principal Risks and Uncertainties – pages 46 and 47
Key Performance Indicators	Key Performance Indicators – pages 16 and 17
Company's capital structure including a summary of the rights and obligations attaching to shares	Group Statement of Changes in Equity – page 93; and Financial Statements
Long Term Incentive Plan, share options and share schemes	Remuneration Report – pages 62 to 77
Events after the balance sheet date	Financial Statements – Note 32 on page 125
Significant subsidiary undertakings	Financial Statements – page 127

The Directors' Report has been approved by the Board and authorised for issue.

Eddie Johnson

Company Secretary

7 May 2020

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

Report on the audit of the Financial Statements

1 Opinion

In our opinion:

- the Financial Statements of Advanced Medical Solutions Group plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the related Consolidated Financial Statement Notes 1 to 32; and
- the related Parent Company Financial Statement Notes 1 to 7.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements are applicable law and the United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2 Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

3 Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Revenue recognition;
- Acquisition accounting;
- Carrying value of goodwill related to the newly acquired subsidiary; and
- Going concern.

Within this report, key audit matters are identified as follows:

- ⚠ Newly identified
- ⬆ Increased level of risk
- ↔ Similar level of risk
- ⬇ Decreased level of risk

Materiality

The materiality that we used for the Group Financial Statements was £1.2 million which was determined on the basis of 5% of profit before tax.

Scoping

We focused our Group audit scope on the UK, Germany and Netherlands, with the UK and Germany subject to a full scope audit, and Netherlands, France and Israel subject to specified procedures. As a consequence of the audit scope determined, we achieved coverage of approximately 100% of revenue, 95% of profit before tax and 99% of net assets.

Significant changes in our approach

Last year the auditor's report included only one key audit matter, whereas this year we have included three further key audit matters: acquisition accounting, the carrying value of goodwill related to a newly acquired subsidiary and going concern. These are included in our report as a result of events that have happened within the year.

4 Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate; or
- the Directors' have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the Financial Statements are authorised for issue.

We have nothing to report in respect of these matters.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Revenue recognition

Key audit matter description	<p>The Group sells medical devices across a number of geographical regions generating revenue of £102.4 million (2018: £102.6 million).</p> <p>The timing of when revenue is recognised is relevant to the reported performance of the Group. There is an opportunity through manipulation or error to misstate the allocation of revenue between periods. This timing of revenue recognised, in particular around year end, is a focus for material Group revenue streams. We have specifically focused this key audit matter to cut-off and occurrence for revenue recorded within November and December 2019 and other one-off material revenue transactions based on our understanding of monthly peaks in sales reported and the associated credit terms with those, and other major, customers. Pressures to meet stakeholder expectations could provide incentives to record revenues where risk and reward have not passed.</p> <p>The associated disclosure is included within Note 4 to the Financial Statements. For specific detail on the Groups accounting policy, please see Note 3 to the Financial Statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the revenue process.</p> <p>We tested a sample of individual sales transactions and traced to despatch notes and subsequent cash receipt or other supporting documents.</p> <p>We performed a detailed analysis of revenue trends within each Business Unit including:</p> <ul style="list-style-type: none"> • inquiry of management and obtaining evidence of management reviews of actual revenue to budget; and • performing enquiries of management and key members of the commercial team to identify any key changes to sales terms in force during the previous year. <p>To validate cut off and occurrence of revenue within the risk period:</p> <ul style="list-style-type: none"> • we identified the population upon which a risk of material misstatement could be likely and for the population identified we validated a sample of sales transactions to despatch records, or alternative evidence, to confirm timing and occurrence of the transaction; • we interrogated and analysed any credit notes post year end which may contradict occurrence of revenue; and • we analysed the receivables ledgers at year end and post year end to identify and interrogate any material overdue debts. <p>We identified and considered the impact of any credit notes or inventory returns occurring after year-end, including evaluating the impact of any material overdue debts from customers.</p>
Key observations	<p>Based on the work performed we concluded that revenue has been recognised appropriately.</p>

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

Report on the audit of the Financial Statements continued

5.2 Acquisition accounting

Key audit matter description During the year, the Group has acquired two new subsidiaries, Sealantis Limited and Biomatlante SA. On 31 January 2019, the Group acquired the entire issued share capital of Sealantis Limited for £20.8 million, generating £15 million in intangible assets and £9.6 million in goodwill. A discount rate of 22.5% was used by management in discounting to fair value and 11 year forecasts were used to determine the net present value, underpinned by the assumptions that the products being developed will get the various approvals sought, the underlying assumptions of 41% growth rate over 21 years and that management's projections are reasonably representative of a market participant perspective. And then on 29 November 2019, the Group acquired the entire issued share capital of Biomatlante SA for £5.9 million, generating £3 million in intangible assets and £3.9 million in goodwill. A discount rate of 11.9% was used by management in discounting to fair value and seven year forecasts were used to determine the net present value. Within the forecasts, management has made assumptions of growth within the business underpinned by growth in sales of existing products reliant on know-how as well as new product sales reliant on patents, giving an overall growth rate of 10%. In both acquisitions, the intangibles were identified using various valuation techniques: excess earning, relief from royalty, cost-based. Accounting for acquisitions under IFRS 3 Business combinations is complex as management are required to separately identify the intangible assets acquired, which involves a higher level of judgement. The associated disclosure is included within Note 31 to the Financial Statements. For specific detail on the Group's accounting policy, please see Note 3 to the Financial Statements.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant controls within acquisition accounting. We reviewed the sale and purchase agreements (SPA), other transactional documentation and third party purchase price allocation reports to evaluate the goodwill and intangible assets recognised and to corroborate the consideration paid. With the involvement of internal specialists we evaluated the valuation techniques, the reasonableness of assumptions applied, to challenge the appropriateness of the risk-adjusted discount rate and whether the fair value model being used is appropriate considering circumstances identified. We challenged the discount rates used by independently setting expectations based on various competitors to the Group and third-party information available, such as beta values, risk-free rates and cost of debt and premiums based on the size of the acquisition or the risk profile of the entity. We then compared management's calculation to that derived by our internal specialists. We have reviewed the key judgments and assumptions to cash flow forecasts, including assessing the potential impact of market developments and strategic plans allowing us to consider sensitivities and whether it reflects a reasonable possible change. We have reviewed that the policies for acquisition accounting within the Financial Statements to assess whether the policies are consistent with the principles of IFRS 3 Business combinations and have been applied appropriately.

Key observations **Based on the work performed we are satisfied that the policies for acquisition accounting under IFRS 3 Business Combinations have been applied appropriately.**

5.3 Carrying value of goodwill related to newly acquired subsidiary

Key audit matter description During the year, the Group acquired a business (Sealantis Limited) which has yet to begin trading and is in the development stage. The Group has recorded significant values of goodwill (£9.6 million) and intangible assets (£15 million) in relation to this acquisition. Sealantis Limited is recognised as its own cash-generating unit. A discount rate of 22.5% has been applied in determining the net present value to represent the increased risk presented by the development stage of the acquisition. Management has used a 21 year period to forecast their results, and determined an eleven year break even period. Within the forecast, management have assumed a 41% growth rate over 21 years and that the entity will return a positive EBITDA from the fourth year onwards. There is a risk the carrying value of goodwill and intangible assets may be higher than its value in use due to the judgement required in forecasting future sales of the entity given it is in the development stage. We have considered the carrying value and indicators of impairment in accordance with IAS 38 Intangible Assets. The associated disclosure is included within Note 19 to the Financial Statements. For specific detail on the Group's accounting policy, please see Note 3 to the Financial Statements.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the controls relevant to acquisition accounting. We have understood and challenged the rationale behind the risk-adjusted discount rate applied to the specific cash-generating unit reflecting the additional risk relating to the development stage of the business and the associated inherent risk. With the support of internal specialists we challenge the appropriateness of the risk-adjusted discount rate. We challenged the underlying assumptions included within the budgets by discussing with management and corroborating committed plans through review of management papers. We assessed the potential impact to EBITDA of changes in the market and internal hurdles in the development process, including understanding the current status of product approvals from relevant Notified Bodies. We have compared the forecasts to a selection of market reports and evaluated management's justifications and assumptions for future cash flows. We re-performed the sensitivity analysis and performed additional sensitivities on the time impact of delaying results, or considering the impact of reduced revenue growth.

Key observations

Based on the work performed we concluded that no impairment should be recorded against the Sealantis cash generating unit and that goodwill and intangible assets are fairly stated in accordance with IAS 38 Intangible Assets.

5.4 Going concern

Key audit matter description

Subsequent to the year-end, there has been a global outbreak of the COVID-19 strain of Coronavirus. The impact of this is still being understood around the world, with non-critical businesses being forced to close or work from home (if possible), and thus likely to impact on possible supply chains and workforces. There is a risk that one or more of the following apply and need to be considered:

- the extent of operational disruption;
- potential diminished demand for products or services;
- contractual obligations due or anticipated within one year;
- potential liquidity and working capital shortfalls; and
- gaining access to existing sources of capital.

There are therefore additional levels of uncertainty in respect to the going concern assumptions being applied.

Given the added level of uncertainty in the application of the going concern basis of accounting, additional time has been required by both management and the audit team to prepare and audit models and forecasts and challenge their basis of preparation, including any assumptions made within those models. The associated disclosure is included within Note 2 to the Financial Statements.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the controls relevant to management's assessment of the going concern basis of preparation. We have reviewed and challenged management's updated going concern paper, and we have completed the following additional audit procedures: We have evaluated management's method to assess the Company's ability to continue as a going concern in light of COVID-19; assessing completeness of all material aspects of the business being considered. We have evaluated the relevance and reliability of the underlying data used to make the assessment of the impact of COVID-19. We have evaluated the assumptions on which management's assessment of the impact of COVID-19 is based by determining whether there is adequate support for the assumptions underlying management's assessment. We have also performed additional sensitivities on their assumptions to stress test them and determined that they are not sensitive to small variations. We have then evaluated how much headroom remains in the forecasts to assess whether the going concern assumption remains appropriate. We have evaluated management's plans for future actions to mitigate the impact of COVID-19 in relation to its going concern assessment, including determining whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. We have considered whether any additional facts or information in relation to the impact of COVID-19 have become available since the date on which management made its assessment.

Key observations

Based on the work performed we concluded that the adoption of the going concern basis of accounting is appropriate.

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

Report on the audit of the Financial Statements continued

6 Our application of materiality

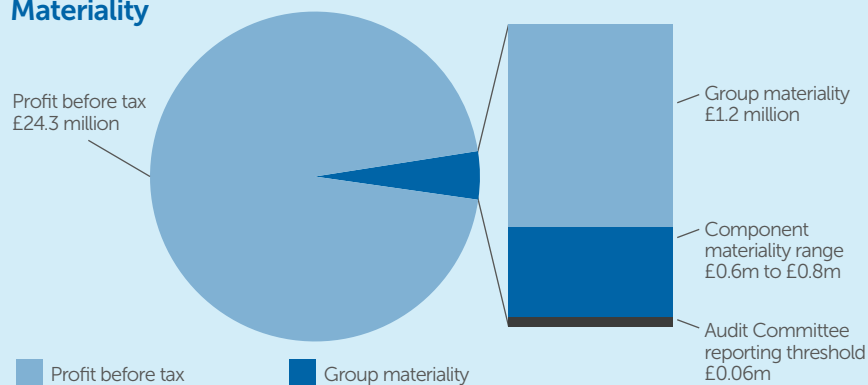
6.1 Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1.2 million (2018: £1.4 million)	£1.1 million (2018: £1.26 million)
Basis for determining materiality	5% of profit before tax (2018: 5% of profit before tax)	The Parent Company materiality represents less than 1% of the Group's equity (2018: less than 1% of the Group's equity) which is capped at 90% of Group materiality.
Rationale for the benchmark applied	Profit before tax is determined to be the most relevant performance measure to the users of the Financial Statements.	As a non-trading Parent Company, equity is the key driver of the company.

Materiality



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment, and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.06m (2018: £0.07m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on this assessment, we focused our Group audit scope on the UK, Germany and Netherlands, with the UK and Germany subject to a full scope audit and the Netherlands, France and Israel subject to specified procedures. As a consequence of the audit scope determined, we achieved coverage of 100% (2018: 94%) of the Group's revenue, 95% (2018: 93%) of the Group's profit before tax and 99% (2018: 95%) of the Group's net assets. Our audit work at each location was executed at levels of materiality applicable to each individual entity which was lower than Group materiality. Component materiality ranged from £0.6m to £0.8m (2018: £0.3m to £1.26m).

Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team except for Germany which is audited by the component auditor Deloitte & Touche GmbH. During the year and subsequent to the year end, senior members of the Group audit team have engaged in regular communications with Deloitte & Touche GmbH. We included the component audit team in our team briefing, discussed their risk assessment, attended the close meeting and reviewed their documentation of the findings from their work.

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

7.2 Our consideration of the control environment

A fully substantive audit was performed with no controls or IT reliance undertaken as determined from our initial risk assessment.

8 Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9 Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10 Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Report on other legal and regulatory requirements

11 Opinions 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 Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

12 Matters on which we are required to report by exception

12.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

12.2 Directors' Remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' Remuneration have not been made.

We have nothing to report in respect of this matter.

13 Use of our report

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.

Rachel Argyle (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Manchester

7 May 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Note	Year ended 31 December 2019			Restated (see Note 3) Year ended 31 December 2018		
		Before exceptional items £'000	Exceptional items (Note 6) £'000	Total £'000	Before exceptional items £'000	Exceptional items (Note 6) £'000	Total £'000
Revenue	4	102,368	–	102,368	102,598	–	102,598
Cost of sales		(41,885)	–	(41,885)	(39,192)	–	(39,192)
Gross profit		60,483	–	60,483	63,406	–	63,406
Distribution costs		(997)	–	(997)	(1,316)	–	(1,316)
Administration costs		(34,566)	(1,053)	(35,619)	(33,318)	(402)	(33,720)
Other income		376	–	376	104	–	104
Profit from operations	4, 5	25,296	(1,053)	24,243	28,876	(402)	28,474
Finance income	11	406	–	406	378	–	378
Finance costs	12	(392)	–	(392)	(581)	–	(581)
Profit before taxation		25,310	(1,053)	24,257	28,673	(402)	28,271
Income tax	13	(5,338)	–	(5,338)	(5,784)	–	(5,784)
Profit for the year attributable to equity holders of the parent		19,972	(1,053)	18,919	22,889	(402)	22,487
Earnings per share							
Basic	15	9.30p	(0.49p)	8.81p	10.74p	(0.19p)	10.55p
Diluted	15	9.21p	(0.49p)	8.72p	10.59p	(0.18p)	10.41p

The above results relate to continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
Profit for the year		18,919	22,487
<i>Items that will potentially be reclassified subsequently to profit and loss:</i>			
Exchange differences on translation of foreign operations		(3,538)	466
Gain/(loss) arising on cash flow hedges		3,091	(3,064)
Deferred tax charge arising on cash flow hedges	18	(130)	–
Other comprehensive expense for the year		(577)	(2,598)
Total comprehensive income for the year attributable to equity holders of the parent		18,342	19,889

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 £'000	Restated 2018 £'000	Restated 2017 £'000
Assets				
Non-current assets				
Acquired intellectual property rights	16	9,478	9,673	9,675
Intangible assets	16	15,985	–	–
Software intangibles	16	2,832	2,548	3,078
Development costs	16	5,039	3,204	2,135
Goodwill	19	53,558	42,145	41,801
Property, plant and equipment	17	27,707	27,850	27,362
Deferred tax assets	18	96	208	199
Trade and other receivables	21	531	415	286
		115,226	86,043	84,536
Current assets				
Inventories	20	17,655	14,800	11,073
Trade and other receivables	21	29,221	27,172	20,950
Current tax assets		129	813	48
Cash and cash equivalents	22	64,751	76,391	62,454
		111,756	119,176	94,525
Total assets		226,982	205,219	179,061
Liabilities				
Current liabilities				
Trade and other payables	23	14,043	14,643	10,547
Current tax liabilities		1,781	3,863	2,305
Lease liability	23	1,353	975	874
		17,177	19,481	13,726
Non-current liabilities				
Trade and other payables	23	3,150	655	310
Bank loans	23	664	–	–
Deferred tax liabilities	18	6,409	3,303	3,120
Lease liability	23	8,347	9,055	9,579
		18,570	13,013	13,009
Total liabilities		35,747	32,494	26,735
Net assets		191,235	172,725	152,326
Equity				
Share capital	27	10,745	10,674	10,632
Share premium		36,226	35,192	34,778
Share-based payments reserve		9,466	7,333	4,676
Investment in own shares	28	(159)	(156)	(152)
Share-based payments deferred tax reserve		649	708	815
Other reserve	28	1,531	1,531	1,531
Hedging reserve	28	555	(2,406)	658
Translation reserve	28	(249)	3,289	2,823
Retained earnings		132,471	116,560	96,565
Equity attributable to equity holders of the parent		191,235	172,725	152,326

The financial statements of Advanced Medical Solutions Group plc (registration number 2867684) on pages 91 to 125 were approved by the Board of Directors and authorised for issue on 7 May 2020 and were signed on its behalf by:

Chris Meredith

Chief Executive Officer

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 2018 (Restated)	10,632	34,778	4,676	(152)	815	1,531	658	2,823	96,565	152,326
Consolidated profit for the year to 31 December 2018	-	-	-	-	-	-	-	-	22,487	22,487
Other comprehensive (expense)/income	-	-	-	-	-	-	(3,064)	466	-	(2,598)
Total comprehensive (expense)/income	-	-	-	-	-	-	(3,064)	466	22,487	19,889
Share-based payments	-	-	1,659	-	(107)	-	-	-	-	1,552
Share options exercised	42	414	998	-	-	-	-	-	-	1,454
Shares purchased by EBT	-	-	-	(600)	-	-	-	-	-	(600)
Shares sold by EBT	-	-	-	596	-	-	-	-	-	596
Dividends paid	-	-	-	-	-	-	-	-	(2,492)	(2,492)
At 31 December 2018 (Restated)	10,674	35,192	7,333	(156)	708	1,531	(2,406)	3,289	116,560	172,725
Consolidated profit for the year to 31 December 2019	-	-	-	-	-	-	-	-	18,919	18,919
Other comprehensive income/(expense)	-	-	-	-	-	-	2,961	(3,538)	-	(577)
Total comprehensive income/(expense)	-	-	-	-	-	-	2,961	(3,538)	18,919	18,342
Share-based payments	-	-	1,856	-	(59)	-	-	-	-	1,797
Share options exercised	71	1,034	277	-	-	-	-	-	-	1,382
Shares purchased by EBT	-	-	-	(603)	-	-	-	-	-	(603)
Shares sold by EBT	-	-	-	600	-	-	-	-	-	600
Dividends paid	-	-	-	-	-	-	-	-	(3,008)	(3,008)
At 31 December 2019	10,745	36,226	9,466	(159)	649	1,531	555	(249)	132,471	191,235

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
Cash flows from operating activities		
Profit from operations	24,243	28,474
<i>Adjustments for:</i>		
Depreciation	3,154	3,180
Amortisation – intellectual property rights	1,683	81
– software intangibles	519	593
– development costs	492	325
Increase in inventories	(2,454)	(3,707)
Increase in trade and other receivables	(574)	(6,813)
(Decrease)/increase in trade and other payables	(1,275)	1,692
Share-based payments expense	1,856	1,659
Taxation	(5,945)	(3,810)
Net cash inflow from operating activities	21,699	21,674
Cash flows from investing activities		
Purchase of software	(826)	(304)
Capitalised research and development	(2,355)	(1,392)
Purchases of property, plant and equipment	(2,673)	(3,062)
Disposal of property, plant and equipment	4	78
Interest received	422	377
Acquisition of subsidiaries (net of cash acquired)	(24,145)	–
Net cash used in investing activities	(29,573)	(4,303)
Cash flows from financing activities		
Dividends paid	(3,008)	(2,492)
Repayment of principal under lease liabilities	(925)	(858)
Issue of equity shares	1,066	430
Shares purchased by EBT	(603)	(600)
Shares sold by EBT	600	596
Interest paid	(709)	(581)
Net cash used in financing activities	(3,579)	(3,505)
Net (decrease)/increase in cash and cash equivalents	(11,453)	13,866
Cash and cash equivalents at the beginning of the year	76,391	62,454
Effect of foreign exchange rate changes	(187)	71
Cash and cash equivalents at the end of the year	64,751	76,391

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 2019 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 and related devices, for closing and sealing tissue, and sutures, haemostats and synthetic bone substitutes for sale into the global medical device and dental market.

2 Basis of preparation

The Group financial statements 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 a period of 12 months from the date of signing 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. In light of the COVID-19 pandemic sensitivity analysis has been prepared to stress test forecasts and the Directors are confident the business can withstand the challenges and is a going concern, due to the significant headroom available.

All AMS sites are currently in operation and meeting the Group's commitments to maintain supply of its medical devices to healthcare partners and customers worldwide. However, the Group is now experiencing a slowdown in demand caused by the cancellation or postponement of elective surgeries and a reduction in accident and emergency treatment as a result of the global lockdowns. The Group currently estimates that its annual revenues will be impacted by approximately 3% to 5% for each month the widespread restrictions remain in place.

With regards to the Group's financial position, it had cash and cash equivalents at the year-end of £64.8 million. The Group has an undrawn £80 million, multi-currency credit facility with a £20 million accordion option. The credit facility is provided jointly by HSBC UK Bank PLC and The Royal Bank of Scotland Group PLC and is in place until December 2023. 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 0.60% and 1.70% depending on the Group's net debt to EBITDA ratio as well as certain financial covenants that need to be complied with.

While the current economic environment is very uncertain, in particular in relation to COVID-19, 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 in the medium-term once the impact of COVID-19 subsides. The Group has a large number of 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 a conclusion that the Group is well placed to manage its business risks in the current economic environment, including Brexit and COVID-19. 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. With the exception of IFRS 16 Leases, 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:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9, Prepayment features with Negative Compensation
- Amendments to IAS 28, Long-term Interests in Associates and Joint ventures
- Annual Improvements to IFRSs 2015-2017 cycle

Notes Forming Part of the Consolidated Financial Statements

continued

3 Accounting policies

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Financial Statements, one key source of estimation uncertainty has been identified that could potentially have a material adjustment to the carrying amounts of assets and liabilities in future financial years. No critical accounting judgement or key sources of estimation uncertainty have been identified in relation to Brexit.

Valuation of assets acquired on acquisition

Upon acquisition of Sealantis in January 2019 and Biomatlante in November 2019, the Group has identified assets and liabilities arising on acquisitions and devised fair values for them. Third party valuation specialists were engaged to assist in the identification and valuation of separable intangible assets. As Sealantis is a pre-commercialisation venture, its cash flows are predicted to support the carrying value of these assets. Management considers that the methodologies adopted in the valuation are supportable and reasonable but there are inherent sources of estimation uncertainty due to the inclusion of future cash flows in the valuation and assumed growth rates of the future business. There is also some estimation uncertainty in relation to the date of product approvals. Sensitivities have been considered further in note 19.

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 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. All entities within the Group have the same year-end.

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 based on the recoverable amount for the relevant cash-generating unit. In assessing the recoverable amount, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market assessments of the time. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

Revenue recognition

The Group manufactures and sells a range of innovative and technologically advanced products for the global surgical, woundcare and wound closure markets. Sales are recognised when control of the products has transferred to the customer in accordance with the contractual shipping terms, the customer has discretion over the channel and price to sell the products in accordance with the sales contract, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Transfer occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Occasionally, the products are sold with volume discounts based on aggregate sales over a 12 month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience and customer-provided forecasts are used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of finance is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with market practice. A receivable is recognised when the goods are transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group also recognises revenue from royalty income receivable under licence agreements from external customers at amounts excluding value added tax as the products under licence are sold and the revenue can be reliably measured. For the year ended 31 December 2019, £3.4 million (2018: £2.3 million) revenue from royalty income was recognised.

Other income

Other income relates to tax credits received under the UK Research and Development Expenditure Credit (RDEC) scheme and is recognised in the Income Statement in the same period in which the expense is incurred.

Exceptional items

Exceptional items are those items that are significant by virtue of their size, nature or incidence, or that the Directors consider should be disclosed separately to enable a full understanding of the Group's financial performance. 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 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.

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 Statement of Financial Position 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 Statement of Financial Position date. The revenue and expenses of foreign operations are translated at an average rate for the period unless exchange rates fluctuate significantly. Exchange differences arising on consolidation are recognised in equity within the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

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 to confirm the principle of an 'economic relationship' exists. 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.

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9.

Notes Forming Part of the Consolidated Financial Statements

continued

3 Accounting policies continued

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 Statement of Financial Position 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 where it is probable the temporary difference will not reverse in the foreseeable future. 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.

Other intangible assets

Other intangibles consist mainly of research and device technologies acquired on acquisition and are initially recognised at their fair value. Other intangibles are amortised over their estimated useful economic lives, usually 9 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.

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.

Regulatory certification costs

Expenditure on regulatory certification costs, where the certificate allows a product to be sold into a market for a period of time greater than one year, is capitalised once it can be demonstrated that the product is clearly identifiable, technically and commercially feasible, will generate future economic benefits, that the certification costs of the asset can be measured reliably and the Group has sufficient resources to complete certification. Expenditure capitalised is stated as the cost of materials less accumulated amortisation. Internal costs relating to regulatory certification costs are not capitalised unless they can be identified as directly attributable to the certification process. Capitalised certification costs are amortised over the term of the certificate which is deemed to be the useful economic life.

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 useful economic 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 administrative purposes are carried in the Statement of Financial Position 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 and Right-of-use assets – Shorter of useful economic life and unexpired period 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 Statement of Financial Position 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 is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market assessments of the time.

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.

Notes Forming Part of the Consolidated Financial Statements

continued

3 Accounting policies continued

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 to meet short-term cash commitments and are subject to insignificant risk in the 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 IFRS 9 'Financial instruments', 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 stated initially at fair value and subsequent to initial recognition they are measured at amortised cost including a provision for expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. The Group writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

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 using the effective interest method.

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 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.

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 Statement of Financial Position 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

For all assets, the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available to use. Assets and liabilities arising from a lease are initially measured on a present value basis using the interest rate implicit in the lease or if that rate cannot be readily determinable, the incremental borrowing rate. Lease payments are allocated between the liability and finance expense. The finance expense is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. Payments associated with leases with a lease term of 12 months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

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'.

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. At each Statement of Financial Position date the Group revises its estimate of the number expected to vest as a result of the effect of non-market based vesting conditions. The impact, if any, is recognised in profit or loss with a corresponding adjustment to reserves.

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 2019, the Group had net funds but acquired £1.2 million of borrowings on the acquisition of Biomatlante. Capital is managed by maximising retained profits. Working capital is managed 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 Statement of Financial Position as a reduction in equity. Gains and losses on Group shares are recognised directly in reserves.

Notes Forming Part of the Consolidated Financial Statements

continued

3 Accounting policies continued

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):

- Amendments to References to Conceptual Framework in IFRS Standards – effective for accounting periods beginning on or after 1 January 2020
- Amendments to IFRS 3 – effective for accounting periods beginning on or after 1 January 2020
- Amendments to IAS1 and IAS8 – effective for accounting periods beginning on or after 1 January 2020
- IFRS 17 Insurance Contracts – effective for accounting periods beginning on or after 1 January 2021

Changes in accounting policies – IFRS 16

From 1 January 2019, the Group has adopted IFRS 16 (Leases)

The Group is not party to any material leases where it acts as a lessor, but the Group does have a number of material property leases relating to operating sites as well as equipment and vehicle leases. Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Approach to transition

The Group has applied IFRS 16 using the full retrospective approach, with the restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right of use assets arising from property leases using the approach set out in IFRS 16.C8(b)(i). Under IFRS 16.C8(b)(i) right of use assets are calculated as if the Standard applied at lease commencement but discounted using the borrowing rate at the date of initial application.

Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-to-use assets and lease liabilities.

The Group has chosen to use the table on page 103 to set out the adjustments recognised at the date of initial application of IFRS16.

	As previously reported at 31 December 2018 £'000	Impact of IFRS16 £'000	As Restated at 1 January 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	18,124	9,726	27,850
Deferred tax asset	177	31	208
Total impact on assets	18,301	9,757	28,058
Liabilities			
Current liabilities			
Lease liabilities	–	976	976
Non-current liabilities			
Lease liabilities	–	9,055	9,055
Total impact on liabilities	–	10,031	10,031
Retained earnings	116,833	(273)	116,560

Additional Property, plant and equipment recognised at 31 December 2018 as part of the transition includes £9.0 million of Leasehold property, £0.5 million of Plant and machinery and £0.2 million of Motor vehicles.

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the 12 months ended 31 December 2019, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Depreciation	(1,051)	(1,020)
Operating leases	1,309	1,272
Finance cost	(383)	(415)
Net impact on Group profit	(125)	(163)

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 under IAS 17 to lease liabilities recognised at 1 January 2019 under IFRS 16.

	£'000
Operating lease commitments disclosed under IAS 17 at 31 December 2018	15,181
Short-term and low-value lease commitments straight-line expensed under IFRS 16	(300)
Effect of discounting	(2,775)
Effect of different rent calculations between IAS 17 and IFRS 16	(2,075)
Finance lease liabilities recognised under IAS 17 at 31 December 2018	–
Lease liabilities recognised at 1 January 2019	10,031

4 Segment information

As previously communicated in the 2018 annual report, the Group has identified some significant benefits accessible by implementing a realignment to our Business Units. The changes included the transfer of ActivHeal® (£6.3 million sales in 2018) from Branded to OEM, and the renaming of the Business Units to Surgical and Woundcare respectively to better reflect the nature of the business. The new structure was implemented in January 2019 and is presented in this way with comparative information restated to align with the new segmental structure.

The Surgical Unit (previously the Branded Unit) will only include the sales, marketing, research, development and innovation of all our surgical products. Woundcare (previously the OEM Unit) will now include all advanced woundcare sales, marketing, research, development and innovation of all woundcare devices, regardless of whether they are sold under an AMS or a partner brand name.

Notes Forming Part of the Consolidated Financial Statements

continued

4 Segment information continued

Year ended 31 December 2019	Surgical £'000	Woundcare £'000	Consolidated £'000
Revenue	56,544	45,824	102,368
Result			
Adjusted segment operating profit	16,086	11,378	27,464
Amortisation of acquired intangibles	(1,675)	(8)	(1,683)
Segment operating profit	14,411	11,370	25,781
Unallocated expenses			(485)
Exceptional costs			(1,053)
Operating profit			24,243
Finance income			406
Finance costs			(392)
Profit before tax			24,257
Tax			(5,338)
Profit for the year			18,919

At 31 December 2019	Surgical £'000	Woundcare £'000	Consolidated £'000
Other information			
Capital additions:			
Software intangibles	364	462	826
Research & development	1,346	1,009	2,355
Property, plant and equipment	1,393	1,280	2,673
Depreciation and amortisation	(3,985)	(1,863)	(5,848)
Statement of Financial Position			
Assets			
Segment assets	160,241	66,354	226,595
Unallocated assets			387
Consolidated total assets			226,982
Liabilities			
Segment liabilities	21,647	14,100	35,747

Year ended 31 December 2018 (Restated)	Surgical £'000	Woundcare £'000	Consolidated £'000
Revenue	57,113	45,485	102,598
Result			
Adjusted segment operating profit	18,240	11,277	29,517
Amortisation of acquired intangibles	(76)	(5)	(81)
Segment operating profit	18,164	11,272	29,436
Unallocated expenses			(560)
Exceptional costs			(402)
Profit from operations			28,474
Finance income			378
Finance costs			(581)
Profit before tax			28,271
Tax			(5,784)
Profit for the year			22,487

At 31 December 2018 (Restated)	Surgical £'000	Woundcare £'000	Consolidated £'000
Other information			
Capital additions:			
Software intangibles	170	134	304
Research & development	815	577	1,392
Property, plant and equipment	1,730	1,332	3,062
Depreciation and amortisation	(2,281)	(1,898)	(4,179)
Statement of Financial Position			
Assets			
Segment assets	137,208	67,492	204,700
Unallocated assets			519
Consolidated total assets			205,219
Liabilities			
Segment liabilities	19,349	13,145	32,494

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 USA. As a result of acquisitions in the year, the Group now has an office in Israel and an operating site in France. 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 the location of the Group's customers:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
United Kingdom	20,151	18,447
Germany	20,018	19,416
Europe excluding the United Kingdom and Germany	23,476	23,987
United States of America	34,879	37,317
Rest of World	3,844	3,431
	102,368	102,598

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

	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
United Kingdom	117,055	129,340
Germany	69,501	66,505
Europe excluding the United Kingdom and Germany	14,718	6,663
United States of America	2,532	2,711
Israel	23,175	–
	226,982	205,219

Notes Forming Part of the Consolidated Financial Statements

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5 Profit from operations

	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
Profit from operations is arrived at after charging:		
Depreciation of property, plant and equipment	3,154	3,180
Amortisation of:		
– acquired intellectual property rights and other intangible assets	1,683	81
– software intangibles	519	593
– development costs	492	325
Research and development costs expensed to the income statement	3,195	3,079
Cost of inventories recognised as expense	40,717	37,927
Write-down of inventories expensed	504	780
Staff costs	33,179	33,559
Net foreign exchange loss	2,790	88

6 Exceptional items

During 2019, £1,053,000 of exceptional costs were incurred mainly relating to the acquisition and integration of Sealantis Ltd and Biomatlante SA and transaction costs to participate in another potential process which was ultimately unsuccessful. (2018: £402,000 mainly relating to the acquisition of Sealantis Ltd).

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 2019 £'000	Year ended 31 December 2018 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	23	20
Fees payable to the Company's auditor and their associates for other audit services to the Group and the audit of the Company's subsidiaries	152	105
Total audit fees	175	125
Audit related assurance services	24	14
Other services	175	7
Total non-audit fees	199	21
	374	146

Other services in the year predominantly relate to transaction services on an unsuccessful transaction process.

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 2019 Number	Year ended 31 December 2018 Number
Production	361	353
Research and development	50	39
Sales and marketing	139	137
Administration	114	100
	664	629

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Staff costs for all employees, including Executive Directors, consists of:		
Wages and salaries	25,858	26,699
Social Security costs	4,156	3,983
Pension costs	1,309	1,218
Share-based payments (see Note 29)	1,856	1,659
	33,179	33,559

9 Directors' emoluments

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Remuneration for management services	604	902
Pension	47	49
Amounts paid to third parties	68	67
Share-based payments	308	418
	1,026	1,436

The Group's highest-paid Director is disclosed in the Remuneration Report on page 70.

Retirement benefits are accruing to the following number of Directors under money purchase schemes	2	2
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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 2019 £'000	Year ended 31 December 2018 £'000
Salaries, fees and short-term employee benefits	1,659	2,109
Pension	108	107
Share-based payments	607	750
	2,374	2,966

11 Finance income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Bank interest	406	378

Notes Forming Part of the Consolidated Financial Statements

continued

12 Finance costs

	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
Amortisation of facility fees	299	164
Finance lease interest	383	417
Other interest	55	–
Change in fair value of long-term debt	(345)	–
	392	581

13 Taxation

a) Analysis of charge for the year

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Current tax:		
Tax on ordinary activities – current year	5,195	5,859
Tax on ordinary activities – prior year	5	(126)
	5,200	5,733
Deferred tax:		
Tax on ordinary activities – current year	61	107
Tax on ordinary activities – prior year	77	(56)
	138	51
Tax charge for the year	5,338	5,784

b) Factors affecting tax charge for the year

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.

The tax assessed for the year is higher (2018: lower) than the weighted average Group tax rate of 21.64% (2018: 21.08%) as explained below:

	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
Profit before taxation	24,257	28,271
Weighted average Group tax rate 21.64% (2018: 21.08%)	5,248	5,960
Effects of:		
Expenses not deductible for tax purposes and other timing differences	246	12
Utilisation and recognition of trading losses	(26)	–
Patent Box Relief	(124)	(318)
Net impact of deferred tax on capitalised development costs and R&D relief	(131)	210
Share-based payments	43	102
Adjustments in respect of prior year – current tax	5	(126)
Adjustments in respect of prior year and rate changes – deferred tax	77	(56)
Taxation	5,338	5,784

Legislation to reduce the main rate of UK corporation tax to 17% was passed by parliament in September 2016 to take effect from 1 April 2020. Subsequent to year-end, parliament reversed this tax rate reduction in March 2020 and therefore the Group will apply revised substantively enacted rates in future reporting periods. The impact of the rate change is not deemed to be significant to the Group.

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 £59,000 surplus: (2018:£107,000 surplus).

A Deferred tax charge arising on cash flow hedge is included in other comprehensive income totalling £130,000 (2018: nil).

14 Dividends

Amounts recognised as distributions to equity holders in the period:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Final dividend for the year ended 31 December 2018 of 0.90p (2017: 0.75p) per Ordinary Share	1,921	1,591
Interim dividend for the year ended 31 December 2019 of 0.50p (2018: 0.42p) per Ordinary Share	1,087	901
	3,008	2,492
Proposed final dividend for the year ended 31 December 2019 of 1.05p (2018: 0.90p) per ordinary share	2,256	1,921

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

15 Earnings per share

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

	Year ended 31 December 2019 '000	Year ended 31 December 2018 '000
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	214,730	213,146
Effect of dilutive potential Ordinary Shares: share options, deferred share bonus, LTIPs	2,107	2,911
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	216,837	216,057
	£'000	Restated £'000
Profit for the year attributable to equity holders of the parent	18,919	22,487
Exceptional costs	1,053	402
Amortisation of acquired intangible assets	1,683	81
Movement in liability fair value accounting	(345)	–
Adjusted profit for the year attributable to equity holders of the parent pre exceptional costs	21,310	22,970
	pence	Restated pence
Earnings per share		
Basic – pre exceptional	9.30	10.74
Basic – post exceptional	8.81	10.55
Diluted – pre exceptional	9.21	10.59
Diluted – post exceptional	8.72	10.41
Adjusted basic – pre exceptional items	9.92	10.78
Adjusted diluted – pre exceptional items	9.83	10.63
Adjusted basic – post exceptional items	9.43	10.59
Adjusted diluted – post exceptional items	9.34	10.45

Notes Forming Part of the Consolidated Financial Statements

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16 Acquired intellectual property rights, software intangibles and development costs

	Acquired intellectual property rights £'000	Other intangible assets £'000	Software intangibles £'000	Development and recertification costs £'000	Total £'000
2019					
Cost					
At beginning of year	13,316	–	4,645	5,997	23,958
On acquisition	360	17,624	–	30	18,014
Additions	–	–	826	2,355	3,181
Disposals/impairment	–	–	(1)	–	(1)
Exchange differences	(538)	(40)	(53)	(49)	(680)
At end of year	13,138	17,584	5,417	8,333	44,472
Amortisation					
At beginning of year	3,643	–	2,097	2,793	8,533
Charged in the year	84	1,599	519	492	2,694
Disposals/impairment	–	–	(1)	–	(1)
Exchange differences	(67)	–	(30)	9	(88)
At end of year	3,660	1,599	2,585	3,294	11,138
Net book value					
At 31 December 2019	9,478	15,985	2,832	5,039	33,334
At 31 December 2018	9,673	–	2,548	3,204	15,425

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. Other intangible assets were recognised on the acquisition of Sealantis Limited and represent technological based know-how.

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' and GENTA-COLL® brand name which are being amortised over 10 and 15 years respectively with two and seven 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 £8,829,000. 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	Other intangible assets £'000	Software intangibles £'000	Development costs £'000	Total £'000
2018					
Cost					
At beginning of year	13,237	–	4,711	4,606	22,554
Additions	–	–	304	1,392	1,696
Disposals/impairment	–	–	(139)	–	(139)
Exchange differences	79	–	(6)	(1)	72
Transfer of asset	–	–	(225)	–	(225)
At end of year	13,316	–	4,645	5,997	23,958
Amortisation					
At beginning of year	3,562	–	1,633	2,471	7,666
Charged in the year	81	–	593	325	999
Disposals/impairment	–	–	(138)	–	(138)
Exchange differences	–	–	9	(3)	6
At end of year	3,643	–	2,097	2,793	8,533
Net book value					
At 31 December 2018	9,673	–	2,548	3,204	15,425
At 31 December 2017	9,675	–	3,078	2,135	14,888

17 Property, plant and equipment

	Freehold land, property and improvements £'000	Right-of-use assets £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
2019							
Cost							
At beginning of year (Restated)	5,962	12,285	12	27,917	894	1,146	48,216
On acquisition	–	407	101	66	21	–	595
Additions	41	198	–	2,411	23	–	2,673
Disposals	–	(300)	–	(130)	–	(102)	(532)
Exchange adjustment	(218)	(94)	–	(147)	(16)	(49)	(524)
At end of year	5,785	12,496	113	30,117	922	995	50,428
Depreciation							
At beginning of year	963	2,559	10	15,710	605	519	20,366
Provided for the year	152	1,068	–	1,732	77	125	3,154
Disposals	–	(300)	–	(130)	–	(102)	(532)
Exchange adjustment	(50)	(13)	–	(164)	(11)	(29)	(267)
At end of year	1,065	3,314	10	17,148	671	513	22,721
Net book value							
At 31 December 2019	4,720	9,182	103	12,969	251	482	27,707
At 31 December 2018	4,999	9,726	2	12,207	289	627	27,850

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £349,000 (2018: £1,035,000).

The net book value of plant and equipment includes £103,000 within plant and machinery (2018: £125,000) of capitalised borrowing costs relating to the Winsford site.

	Freehold land, property and improvements £'000	Right-of-use assets £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
2018							
Cost							
At beginning of year	5,321	11,890	12	25,807	752	1,139	44,921
Additions	604	405	–	2,306	152	–	3,467
Disposals	–	(15)	–	(473)	(13)	–	(501)
Transfer of assets from intangible assets	–	–	–	225	–	–	225
Exchange adjustment	37	5	–	52	3	7	104
At end of year (Restated)	5,962	12,285	12	27,917	894	1,146	48,216
Depreciation							
At beginning of year	801	1,547	10	14,436	441	324	17,559
Provided for the year	148	1,021	–	1,652	172	187	3,180
Disposals	–	(15)	–	(399)	(10)	–	(424)
Exchange adjustment	14	6	–	21	2	8	51
At end of year (Restated)	963	2,559	10	15,710	605	519	20,366
Net book value							
At 31 December 2018 (Restated)	4,999	9,726	2	12,207	289	627	27,850
At 31 December 2017 (Restated)	4,520	10,343	2	11,371	311	815	27,362

Notes Forming Part of the Consolidated Financial Statements

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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	Advanced capital allowances £'000	Intangible assets £'000	Research and Development Assets £'000	Other £'000	Total £'000
At 31 December 2017	1,074	(587)	(2,978)	(430)	–	(2,921)
Charge/(credit) to income	110	76	25	(263)	31	(21)
Credit to equity	(107)	–	–	–	–	(107)
Exchange adjustment	–	–	(46)	–	–	(46)
At 31 December 2018 (Restated)	1,077	(511)	(2,999)	(693)	31	(3,095)
Charge/(credit) to income	114	(186)	477	(314)	(134)	(43)
Credit to equity	(59)	–	–	–	–	(59)
Exchange adjustment	–	–	29	–	–	29
Acquisition of subsidiary	–	–	(3,145)	–	–	(3,145)
At 31 December 2019	1,132	(697)	(5,638)	(1,007)	(103)	(6,313)

Certain deferred tax assets and liabilities have been offset where there is a legal, enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £'000	2018 £'000
Deferred tax liabilities	(6,409)	(3,303)
Deferred tax assets	96	208
	(6,313)	(3,095)

At the Statement of Financial Position date, the Group has approximately £8.8 million unused tax losses (2018: £nil) arising on the acquisition of Biomatlante and Sealantis, available for offset against future profits. These have not been recognised in the Statement of financial Position as there is not currently sufficient evidence to prove that sufficient taxable profit will be available.

19 Goodwill

	2019 £'000	2018 £'000
Cost		
At 1 January	42,145	41,801
Acquisitions	13,542	–
Exchange differences	(2,129)	344
At 31 December	53,558	42,145

Three cash generating units (CGU) exist within the Surgical segment whereby goodwill has been allocated. CGU1 has goodwill and indefinite useful life intangible assets of £37.2 million and £8.1 million (2018: £39.1 million and £9.3 million) respectively. CGU2 which is in a pre-commercialisation stage has goodwill of £9.6 million (2018: £nil) and CGU3 has goodwill of £3.9 million (2018: £nil).

One cash generating unit (CGU) exists within the Woundcare segment whereby goodwill has been allocated. CGU1 has goodwill of £2.9 million (2018: £3 million which is restated by £1.8 million to include the 2018 Branded CGU1 balance as a result of the business unit reorganisation (See Note 4).

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

£9.6 million of goodwill arose in the year on the acquisition of Sealantis Limited on 31 January 2019 and £3.9 million arose on the acquisition of Biomatlante SA on 30 November 2019.

The goodwill and intangible assets with indefinite useful economic life have been allocated to the relevant CGU based upon the underlying identification of operations and assets to which the goodwill and intangibles relate to, as follows:

At 31 December 2019	Goodwill £'000	Intangible assets with indefinite useful life £'000	Total £'000
Surgical: CGU1	37,220	8,829	46,049
Surgical: CGU2	9,554	–	9,554
Surgical: CGU3	3,927	–	3,927
Woundcare: CGU1	2,857	–	2,857
Consolidated	53,558	8,829	62,387

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

Surgical CGU3 relates to Biomatlante which was recently acquired in November 2019 and therefore an annual impairment assessment has not been made.

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. With the exception of CGU2, a pre-commercialisation venture, 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 14%, and with growth not exceeding the long-term average growth rate for the industry for years 6 to 20. Using a forecasting period of 20 years is deemed reasonable given the nature of the products sold by the CGUs. The growth rate would have to fall significantly in order for an impairment to be required. A discount rate of between 7.1% and 7.5% per annum (2018: between 7.3% and 8.05%), 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. A discount rate of 22.5% has been applied to the cash flows of CGU2 to represent the pre-commercialisation stage of this venture. The Group has conducted a sensitivity analysis on the impairment test.

For Surgical CGU1 and Woundcare CGU1, there is no reasonably possible changes in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

For Surgical CGU2 as a pre-commercial venture, the assumptions applied to the impairment test give rise to a key source of estimation uncertainty.

The cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and movements in these could lead to an impairment.

The following key assumptions have been sensitised to identify the change required to eliminate the headroom within the impairment test:

The cash flow forecasts in each of the years covered by the forecast would have to be 41% below forecast

The discount rate would have to increase to 30%

The business continuity period would have to decrease from 20 years to 11.

20 Inventories

	2019 £'000	2018 £'000
Raw materials	7,333	6,526
Work in progress	3,866	3,373
Finished goods	6,456	4,901
	17,655	14,800

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 Enil (2018: Enil) carried at net realisable value.

	2019 £'000	2018 £'000
Total gross inventories	19,068	16,552
Inventory impairment	(1,413)	(1,752)
Net inventory	17,655	14,800

Notes Forming Part of the Consolidated Financial Statements

continued

21 Trade and other receivables

	2019 £'000	2018 £'000
Current assets		
Trade receivables	25,627	24,660
Other receivables	1,269	694
Derivative financial instruments	715	–
Prepayments and accrued income	1,610	1,818
	29,221	27,172
Non-current assets		
Derivative financial instruments	273	–
Prepayments and accrued income	281	415
	531	415

	2019 £'000	2018 £'000
Amount receivable for the sale of goods	25,788	24,937
Loss allowance	(161)	(277)
Net trade receivables	25,627	24,660

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

No interest is charged on 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.

The Group believes that the unimpaired amounts that are past due are still collectable in full, based on historic payment behaviour and extensive analysis of customer credit risk – a large proportion of debts overdue over 30 days were recovered post the Statement of Financial Position date. The Group does not hold any collateral or other credit enhancements over these balances. The carrying amount and ageing of these debtors is summarised below.

Ageing of overdue but not impaired trade receivables

	2019 £'000	2018 £'000
31 to 60 days overdue	880	1,693
61 to 90 days overdue	215	146
Over 90 days overdue	308	–
Total	1,403	1,839

Movement in loss allowance for trade receivables

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Balance at the beginning of the year	277	192
Impairment losses recognised	20	126
Amounts written off as non-collectable	(88)	(8)
Amounts recovered during the year	(48)	(33)
Balance at the end of the year	161	277

Analysis of customers

In the year ended 31 December 2019, one customer accounted for more than 10% of the Group's revenue. The customer accounted for 12% of the Group's revenue in 2019 (2018: one – 16% of revenue).

22 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	64,751	76,391

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

	2019 £'000	Restated 2018 £'000
Current liabilities		
Trade payables	7,402	3,962
Other payables	3,164	2,378
Lease liabilities	1,353	975
Derivative financial instruments	302	2,008
Accruals and deferred income	3,175	6,295
	15,396	15,618
Non-current liabilities		
Other payables	3,150	258
Lease liabilities	8,347	9,055
Bank loans	664	–
Derivative financial instruments	–	397
	12,161	9,710

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

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.

Bank loans relate to a number of loans acquired as part of the Biomatlante acquisition in the year and expire in 3-5 years with an average interest rate of 2.56%.

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

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 and 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 IFRS 9 'Financial Instruments' and leases under IFRS 16 'Leases'.

Carrying value

	2019 £'000	Restated 2018 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	91,905	102,160
Derivative instruments in designated hedge accounting relationships	988	–
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	302	2,406
Financial liabilities measured at amortised cost	14,816	15,298
Financial liabilities measured at fair value	2,739	–
Lease liabilities	9,700	10,030

Notes Forming Part of the Consolidated Financial Statements

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24 Financial instruments continued

In December 2018 the Group entered into a multi-currency facility with the Royal Bank of Scotland Group PLC and HSBC UK Bank PLC. The principal features of the facility are:

- The committed value of the facility is £80 million
- There is an uncommitted accordion of an additional £20 million
- It is unsecured
- Facility will expire in December 2023
- The interest payable on drawings under the loan is based on inter-bank interest rates (EURIBOR or, if Sterling denominated, LIBOR) plus a sliding scale margin determined by the Group's leverage: the margin would currently be 0.60%
- 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 44 to 47 provides an explanation of the financial risks faced by the Group and the objectives and policies for managing those risks including hedging practices adopted. 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 %
2019						
Trade and other payables	14,043	139	1,154	1,857	17,193	
Lease liabilities	1,353	909	1,545	5,893	9,700	
Bank loans	–	133	531	–	664	2.56%
At 31 December 2019	15,396	1,181	3,230	7,750	27,557	
	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 %
2018 (Restated)						
Trade and other payables	14,643	450	158	47	15,298	
Lease liabilities	975	791	1,564	6,700	10,030	
At 31 December 2018	15,618	1,241	1,722	6,747	25,328	

(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
Currency			
Sterling	54,926	6,786	61,712
US Dollar	317	276	593
Euro	1,974	384	2,358
Israeli Shekel	–	88	88
At 31 December 2019	57,217	7,534	64,751

	Floating £'000	Non-interest bearing £'000	Total £'000
Currency			
Sterling	48,321	25,059	73,380
US Dollar	334	1,279	1,613
Euro	1,340	58	1,398
At 31 December 2018	49,995	26,396	76,391

Trade and other receivables

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

	2019 £'000	2018 £'000
Sterling	10,703	11,544
US Dollar	13,449	12,636
Euro	5,555	3,406
Israeli Shekel	45	–
	29,752	27,586

The financial assets all mature within one year. Credit risk is discussed in Note 21.

(c) Currency exposures

At 31 December 2019, the Group had unhedged US Dollar currency exposures of £nil (2018: £nil) and unhedged Euro currency exposures of £nil (2018: £nil).

Risk sensitivity

The Group's interest rate risk is not considered to be a significant risk.

The Group estimates that a 10% movement in the £:US\$ or £:Euro exchange rate would have impacted 2019 Sterling revenues by approximately 3.4% and 2.7% respectively and in the absence of any hedging this would have had an impact on profit of 2.7% and 1.0%.

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	Average contract rate		Notional principle		Fair value	
	2019 USD:£1	2018 USD:£1	2019 USD '000	2018 USD '000	2019 £'000	2018 £'000
Cash flow hedges						
Sell US dollars						
Less than 3 months	1.386	1.319	9,000	10,400	(307)	(230)
3 to 6 months	1.328	1.432	8,000	7,500	(5)	(589)
7 to 12 months	1.271	1.423	17,500	17,000	615	(1,175)
Over 12 months	1.301	1.407	12,500	7,000	262	(397)
			47,000	41,900	565	(2,391)
	Average exchange rate		Foreign currency		Fair value	
	2019 EUR:£1	2018 EUR:£1	2019 EUR '000	2018 EUR '000	2019 £'000	2018 £'000
Sell Euros						
Less than 3 months	1.125	1.114	620	600	23	
3 to 6 months	1.143	1.116	1,200	960	25	(4)
7 to 12 months	1.112	1.110	1,500	1,920	61	(9)
Over 12 months	1.144	1.110	1,200	320	12	(2)
			4,520	3,800	121	(15)

The fair value amounts (classified under level two of the fair value hierarchy) presented above are the difference between the market value of equivalent instruments at the Statement of Financial Position date and the contract value of the instruments. No profits or losses are included in operating profit in the year (2018: £nil) in respect of FVTPL contracts. The gain of £3,091,000 (2018: £3,064,000 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.

Notes Forming Part of the Consolidated Financial Statements

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26 Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2019	2018	2019	2018	Average %	Closing %
Currency						
US Dollar	1.275	1.337	1.320	1.280	5	3
Euro	1.138	1.130	1.175	1.118	(1)	5

27 Share capital

	Allotted, called up and fully paid '000
Number of Ordinary Shares of 5p each	
At 1 January 2018	212,642
Share options exercised	831
At 31 December 2018	213,473
Share options exercised	1,417
At 31 December 2019	214,890

During the year, employees exercised share options and options over LTIPs for 1,087,946 shares (2018: 642,121) at a range of option prices from 71p to 185p.

During the year, 312,521 (2018: 353,045) 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 Statement of Financial Position date, 420,270 (2018: 424,652) 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 2018	10,632
Share options exercised	42
At 31 December 2018	10,674
Share options exercised	71
At 31 December 2019	10,745

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 instruments are 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 parent's 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 £3,538,000 loss has been recorded in the translation reserve during the period, which would otherwise have been recognised in Administration costs (2018: £466,000 gain) 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:

	2019 £'000	2018 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Scheme	265	136
Long-Term Incentive Plan	748	936
Deferred Share Bonus Scheme and Deferred Annual Bonus Scheme	843	587
	1,856	1,659

Unapproved Executive Share Option Scheme, 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	20/04/2009	15/04/2011	08/09/2011	10/05/2012	26/04/2013	15/04/2014
Share price at grant date	33.75p	88.0p	86.25p	69.08p	77.5p	115.75p
Exercise price	33.75p	88.0p	86.25p	69.08p	77.5p	115.75p
Expected life	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
Risk free rate	2.40%	1.92%	1.92%	0.39%	0.36%	0.80%
Expected volatility	34%	18%	18%	34%	36%	36%
Expected dividend yield	0%	0.7%	0.7%	0.7%	0.7%	0.7%
Fair value of options	6p	9p	9p	13p	15p	23p

Grant Date	19/09/2014	02/04/2015	18/04/2016	06/04/2017	13/04/2018	24/04/2019
Share price at grant date	121.75p	132.0p	184.6p	246.7p	308.0p	328.75p
Exercise price	121.75p	132.0p	184.6p	246.7p	308.0p	328.75p
Expected life	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
Risk free rate	0.80%	0.80%	0.67%	0.18%	0.94%	0.75%
Expected volatility	36%	31%	25%	23%	34%	26%
Expected dividend yield	0.7%	0.7%	0.4%	0.4%	0.7%	0.4%
Fair value of options	24p	22p	25p	29p	41p	48p

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29 Share-based payments continued

Under the terms of the Company's Share Option Scheme, approved by shareholders in 2019, 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 determined prior to the date of the offer. Individuals who are entitled to awards under the LTIP are not 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 2019:

Date of grant	Option price (p)	Weighted average price at exercise (p)	Number of options as at 1 January 2019	Remaining life 1 January 2019	Issued	Lapsed	Exercised	Number of options as at 31 December 2019	Remaining life 31 December 2019
Unapproved Executive Share Option Scheme									
10.05.12	69.08	319.00	5,500	3.4	–	–	(5,500)	–	2.4
15.04.14	115.75	330.00	122,000	5.3	–	–	(16,000)	106,000	4.3
19.09.14	121.75	319.00	33,360	5.7	–	–	(5,360)	28,000	4.7
02.04.15	132.00	312.74	139,546	6.2	–	–	(59,546)	80,000	5.2
18.04.16	184.60	317.69	601,088	7.3	–	–	(408,804)	192,284	6.3
06.04.17	246.70	–	500,580	8.3	–	(49,483)	–	451,097	7.3
13.04.18	308.00	–	404,304	9.3	–	(55,283)	–	349,021	8.3
24.04.19	328.75	–	–	–	535,437	(34,707)	–	500,730	9.3
Enterprise Management Incentive Scheme									
16.04.10	42.00	274.00	38,000	1.3	–	–	(23,000)	15,000	0.3
Company Share Option Plan									
15.04.11	88.00	–	6,000	2.3	–	–	–	6,000	1.3
08.09.11	86.25	–	1,000	2.7	–	–	–	1,000	1.7
10.05.12	69.08	330.00	1,000	3.4	–	–	(1,000)	–	2.4
26.04.13	77.50	–	1,000	4.3	–	–	–	1,000	3.3
15.04.14	115.75	319.00	24,400	5.3	–	–	(5,180)	19,220	4.3
19.09.14	121.75	319.00	24,640	5.7	–	–	(24,640)	–	4.7
02.04.15	132.00	330.00	17,727	6.2	–	–	(5,000)	12,727	5.2
18.04.16	184.60	330.00	148,053	7.3	–	–	(81,255)	66,798	6.3
06.04.17	246.70	–	211,922	8.3	–	(18,875)	–	193,047	7.3
13.04.18	308.00	–	156,476	9.3	–	(26,695)	–	129,781	8.3
24.04.19	328.75	–	–	–	157,341	–	–	157,341	9.3
			2,436,596		692,778	(185,043)	(635,285)	2,309,046	

The weighted average remaining contractual life of the options outstanding at 31 December 2019 is 8.2 years (2018: 7.7 years).

	2019		2018	
	Number of Options	Weighted average exercise price (p)	Number of Options	Weighted average exercise price (p)
Outstanding at beginning of the year	2,436,596	219.12	2,273,099	183.50
Issued	692,778	328.75	599,479	308.00
Exercised	(635,285)	314.97	(333,413)	314.75
Lapsed	(185,043)	289.25	(102,569)	242.13
Outstanding at end of the year	2,309,046	260.72	2,436,596	219.12
Exercisable at end of the year	528,029	150.16	414,173	113.78

Long Term Incentive Plan (LTIP)

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

Grant date	06/06/2014	02/04/2015	10/09/2015	18/04/2016	06/04/2017	02/11/2017	13/04/2018	24/04/2019
Share price at grant date	117.0p	132.0p	151.5p	184.6p	246.7p	344.7p	306.8p	328.75p
Exercise price	0p	0p	0p	0p	0p	0p	0p	0p
Expected life	3 yrs	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	10 yrs
Risk free rate	0.80%	0.80%	0.67%	0.67%	0.18%	0.18%	0.94%	0.75%
Expected volatility	36%	29%	27%	25%	23%	23%	25%	26%
Expected dividend yield	0.7%	0.7%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Probability of performance conditions	75%	80%	80%	64%	64%	64%	72%	50%
Fair value of option	85.9p	64.4p	75.5p	159.0p	220.0p	220.0p	264.0p	297.0p

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 71. The numbers shown are maximum entitlements and the actual number of shares issued (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 2019	Remaining life 1 January 2019	Issued	Lapsed	Exercised	Number of LTIPs at 31 December 2019	Remaining life 31 December 2019
Long-Term Incentive Plan								
06.06.14	117.00	49,033	5.5	–	–	(10,583)	38,450	4.5
02.04.15	132.00	103,566	6.3	–	–	(4,296)	99,270	5.3
10.09.15	151.50	262,186	6.7	–	–	(115,247)	146,939	5.7
18.04.16	184.60	610,023	7.3	–	(59,180)	(322,535)	228,308	6.3
06.04.17	246.70	912,324	8.3	–	(4,449)	–	907,875	7.3
02.11.17	344.70	9,308	8.8	–	–	–	9,308	7.8
13.04.18	308.00	364,645	9.3	–	–	–	364,645	8.3
24.04.19	328.75	–	–	437,469	–	–	437,469	9.3
		2,311,085		437,469	(63,629)	(452,661)	2,232,264	

The weighted average remaining contractual life of the LTIPs outstanding at 31 December 2019 is 7.5 years (2018: 8.1 years).

	2019 Number of Options	2018 Number of Options
Outstanding at beginning of the year	2,311,085	1,887,825
Issued	437,469	824,500
Exercised	(452,661)	(308,708)
Lapsed	(63,629)	(92,532)
Outstanding at end of the year	2,232,264	2,311,085
Exercisable at end of year	512,967	414,785

The exercise price of these options is £1 for each issue of LTIPs.

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	02/05/2008	23/04/2009	05/05/2010	11/05/2011	10/05/2012	02/07/2013
Share price at grant date	18.25p	35.50p	34.00p	40.32p	83.00p	70.625p	74.125p
Exercise price	0p	0p	0p	0p	0p	0p	0p
Expected life	3.5 yrs	3.5 yrs	3 yrs	5 yrs	5 yrs	5 yrs	5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	5.00%	5.00%	2.40%	2.40%	1.92%	0.39%	0.69%
Expected volatility	27%	38%	30%	34%	18%	34%	36%
Expected dividend yield	0%	0%	0%	0%	0.7%	0.7%	0.7%
Probability of performance conditions	100%	100%	100%	100%	100%	100%	100%
Fair value of option	14p	30p	72p	61p	72p	110p	63p

Grant date	30/04/2014	29/04/2015	03/05/2016	02/05/2017	13/04/2018	24/04/2019
Share price at grant date	126.0p	141.5p	183.0p	264.1p	306.8p	328.75p
Exercise price	0p	0p	0p	0p	0p	0p
Expected life	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	0.80%	0.80%	0.67%	0.18%	0.94%	0.75%
Expected volatility	36%	31%	25%	23%	25%	26%
Expected dividend yield	0.7%	0.7%	0.4%	0.4%	0.4%	0.4%
Probability of performance conditions	100%	100%	100%	100%	100%	100%
Fair value of option	110p	124p	160p	233p	266p	296p

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 being met. Details on the DSB are given on page 68.

Grant date	Market price at date of grant (p)	Number of DSB matching shares at 1 January 2019	Remaining life 1 January 2019	Issued	Lapsed	Exercised	Number of DSB matching shares at 31 December 2019	Remaining life 31 December 2019
Deferred Share Bonus Plan								
12.04.07	18.25	11,187	–	–	–	(4,428)	6,759	–
02.05.08	35.50	13,640	–	–	–	–	13,640	–
23.04.09	34.00	19,416	0.3	–	–	(1,051)	18,365	–
05.05.10	40.32	16,120	1.3	–	–	–	16,120	0.3
11.05.11	83.00	9,858	2.4	–	–	(1,853)	8,005	1.4
10.05.12	70.63	10,562	3.4	–	–	–	10,562	2.4
02.07.13	74.13	102,070	4.5	–	–	(4,514)	97,556	3.5
30.04.14	126.00	85,991	5.3	–	–	(1,218)	84,773	4.3
29.04.15	141.50	141,051	6.3	–	–	(23,635)	117,416	5.3
03.05.16	183.00	318,567	7.3	–	(556)	(25,675)	292,336	6.3
02.05.17	264.10	272,369	8.3	–	(5,562)	(13,803)	253,004	7.3
13.04.18	306.77	285,413	9.3	–	(14,131)	(135,419)	135,863	8.3
24.04.19	328.75	–	–	275,800	(14,436)	(9,986)	251,378	9.3
		1,286,244		275,800	(34,685)	(221,582)	1,305,777	

The weighted average remaining contractual life of the DSBs outstanding at 31 December 2019 is 6.5 years (2018: 6.9 years).

	2019 Number of Options	2018 Number of Options
Outstanding at beginning of the year	1,286,244	1,155,699
Issued	275,800	290,008
Exercised	(221,582)	(152,843)
Lapsed	(34,685)	(6,620)
Outstanding at end of the year	1,305,777	1,286,244
Exercisable at end of year	665,532	409,895

The exercise price of the matching shares is £nil.

Deferred Annual Bonus Scheme (DAB)

The fair value of the DAB are calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant date	21/05/2014	15/04/2015	18/04/2016	06/04/2017	13/04/2018	24/04/2019
Share price at grant date	115.4p	129.0p	184.6p	246.7p	308.0p	328.75p
Exercise price	0p	0p	0p	0p	0p	0p
Expected life	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
Risk-free rate	0.80%	0.80%	0.67%	0.18%	0.94%	0.75%
Expected volatility	31%	31%	25%	23%	25%	26%
Expected dividend yield	0.7%	0.7%	0.4%	0.4%	0.4%	0.4%
Probability of performance conditions	100%	100%	100%	100%	100%	100%
Fair value of option	115p	129p	183p	250p	308p	329p

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

The DAB scheme began on 21 May 2014. Participants compulsorily defer part of their bonus for the relevant financial year and they vest at the end of a three-year period from the time of grant.

Grant date	Market price at date of grant (p)	Number of DAB matching shares at 1 January 2019	Remaining life 1 January 2019	Issued	Lapsed	Exercised	Number of DAB matching shares at 31 December 2019	Remaining life 31 December 2019
Deferred Annual Bonus Plan								
21.05.2014	115.40	520	5.3	–	–	–	520	4.3
15.04.2015	129.00	20,847	6.3	–	–	(8,454)	12,393	5.3
18.04.2016	184.60	89,888	7.3	–	–	(71,422)	18,466	6.3
06.04.2017	246.70	64,886	8.3	–	–	–	64,886	7.3
13.04.2018	308.00	63,037	9.3	–	–	–	63,037	8.3
24.04.2019	328.75	–	–	36,721	–	–	36,721	9.3
		239,178		36,721	–	(79,876)	196,023	

The weighted average remaining contractual life of the DABs outstanding at 31 December 2019 is 7.8 years (2018: 7.5).

	2019 Number of Options	2018 Number of Options
Outstanding at beginning of the year	239,178	233,587
Issued	36,721	63,037
Exercised	(79,876)	(57,446)
Lapsed	–	–
Outstanding at end of the year	196,023	239,178
Exercisable at end of year	31,379	21,367

30 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.

Notes Forming Part of the Consolidated Financial Statements

continued

31 Acquisitions

On 31 January 2019 the Group acquired the entire issued share capital of Sealantis Limited, an Israel-based developer of an alginate-based tissue adhesive technology platform.

Identifiable net assets acquired	£'000
Technology-based Intangible assets	15,012
Property, plant and equipment	21
Other receivables	59
Cash and cash equivalents	999
Trade and other payables	(804)
Deferred tax on Intangible assets	(2,402)
Grant liability	(1,694)
Goodwill	9,615

Satisfied by	£'000
Cash consideration	19,407
Contingent consideration	1,399
	20,806

Contingent consideration reflects the fair value of a royalty due to the sellers in each financial year up to 31st December 2027.

Net cash flow on acquisition	£'000
Cash consideration	19,407
Cash acquired	(999)
	18,408

None of the goodwill on the acquisition is expected to be deductible for income tax..

In the year ended 31 December 2019, Sealantis contributed no revenue to the Group and had an operating loss of £1,001,000. In addition, amortisation of intangible assets of £1,574,000 and a credit of £345,000 related to a revaluation of a long-term debt were recorded within the Group as a result of the acquisition. Had Sealantis been part of the Group since 1 January 2019, it would have contributed no revenue and £1,140,000 of operating loss.

On 30 November 2019 the Group acquired the entire issued share capital of Biomatlante S.A. a French based developer and manufacturer of synthetic bone graft technologies.

Identifiable net assets acquired	£'000
Technology-based Intangible assets (Know-how)	2,186
Technology-based Intangible assets (Patents)	360
Customer-related Intangible assets	426
Development costs Intangible assets	30
Finance lease assets	407
Property, plant and equipment	167
Inventory	682
Trade receivables	1,471
Lease liabilities	(430)
Cash and cash equivalents	135
Trade and other payables	(1,441)
Loan and borrowings	(1,267)
Deferred tax on Intangible assets	(742)
Goodwill	3,927

Satisfied by	£'000
Cash consideration	5,911

Net cash flow on acquisition	£'000
Cash consideration	5,911
Completion payment	(39)
Cash acquired	(135)
	5,737

None of the goodwill on the acquisition is expected to be deductible for income tax.

In the year ended 31 December 2019, Biomatlante contributed £431,000 revenue to the Group and had an operating profit of £93,000. In addition, amortisation of intangible assets of £29,000 was recorded within the Group as a result of the acquisition. Had Biomatlante been part of the Group since 1 January 2019, it would have contributed £4,581,000 of revenue and £42,000 of operating profit.

32 Subsequent events

Subsequent to the Statement of Financial Position date, the Group has been impacted by the COVID-19 pandemic. The impact has been discussed on page 1.

Company Statement of Financial Position

At 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investments in subsidiaries	3	58,017	52,147
Loans and other financial assets		255	415
		58,272	52,562
Current assets			
Investments			
Trade and other receivables	4	24,723	3,380
Cash and cash equivalents		59,043	71,676
		83,766	75,056
Current liabilities			
Trade and other payables	5	(7,838)	(7,411)
		75,928	67,645
Net current assets		75,928	67,645
Net assets		134,200	120,207
Equity shareholders' funds			
Share capital	6	10,745	10,674
Share premium		36,226	35,192
Share-based payments reserve		9,466	7,333
Investment in own shares		(159)	(156)
Retained earnings		77,922	67,164
Equity attributable to equity holders of the parent		134,200	120,207

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £'000	Share-based payments £'000	Investment in own shares £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2018	10,632	4,676	(152)	34,778	54,086	104,020
Share-based payments	–	1,659	–	–	–	1,659
Share options exercised	42	998	–	414	–	1,454
Shares purchased by EBT	–	–	(600)	–	–	(600)
Shares sold by EBT	–	–	596	–	–	596
Total comprehensive income	–	–	–	–	15,570	15,570
Dividends paid	–	–	–	–	(2,492)	(2,492)
At 31 December 2018	10,674	7,333	(156)	35,192	67,164	120,207
Share-based payments	–	1,856	–	–	–	1,856
Share options exercised	71	277	–	1,034	–	1,382
Shares purchased by EBT	–	–	(603)	–	–	(603)
Shares sold by EBT	–	–	600	–	–	600
Total comprehensive income	–	–	–	–	13,766	13,766
Dividends paid	–	–	–	–	(3,008)	(3,008)
At 31 December 2019	10,745	9,466	(159)	36,226	77,922	134,200

The Company reported a net profit for the year ended 31 December 2019 of £13.8 million (2018: £15.6 million).

The financial statements of Advanced Medical Solutions Group plc (registration number 2867684) on pages 126 to 130 were approved by the Board of Directors and authorised for issue on 7 May 2020 and were signed on its behalf by:

C Meredith

Chief Executive Officer

Notes to the Company Financial Statements

Year ended 31 December 2019

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 the advantage of the FRS 101 disclosure exemptions have been taken.

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.

Critical judgements in applying the Company's accounting policies and areas of key estimation uncertainty

In the process of applying the Company's accounting policies, which are described below, no judgements have been made by the Directors, nor do any areas of key estimation uncertainty exist that have a significant effect on the amounts recognised in the Financial Statements.

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 Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Statement of Financial Position 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 to 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 Statement of Financial Position 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.

Notes to the Company Financial Statements

continued

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 Statement of Financial Position 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 Statement of Financial Position 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 2019 of £13,766,000 (2018: Profit of £15,570,000).

The Auditor's 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 16 (2018: 16), all of whom were classified as Administration (2018: same).

The Directors' remuneration is detailed in Note 9 to the Consolidated Financial Statements.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Staff costs for all employees, including Executive Directors, consists of:		
Wages and salaries	1,400,081	3,355,650
Social Security costs	552,613	512,247
Pension costs	85,780	102,872
Share-based payments (see Note 29)	1,855,688	1,659,409
	3,894,162	5,630,178

3 Investments in subsidiaries

	Investments in subsidiaries £'000
Cost	
At 1 January 2019	80,817
Additions in the year	5,870
At 31 December 2019	86,687
Provisions for impairment	
At 1 January 2019	28,670
At 31 December 2019	28,670
Net Book value	
At 31 December 2019	58,017
At 31 December 2018	52,147

Additions in the year represent the acquisition of Biomatlante S.A.

Shares in Group undertakings and loans to Group undertakings have been written down to recognise losses in subsidiary companies.

3 Investments in subsidiaries continued

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	Registered address
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
Advanced Medical Solutions Trustee Company Limited	England	100%	Trustee Company	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
Advanced Medical Solutions (Plymouth) Limited	England	100%	Dormant	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
Advanced Healthcare Systems Limited	England	100%*	Dormant	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
MedLogic Global Holdings Limited	England	100%¶	Holding Company	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
Innovative Technologies Limited	England	100%‡	Dormant	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom
Advanced Medical Solutions BV	Netherlands	100%	Development and manufacture of medical products	Munnikenheiweg 35, 4879 NE Etten-Leur, Netherlands
Advanced Medical Solutions (Germany) GmbH	Germany	100% [^]	Holding Company	Am Flachmoor 16, 90475 Nuremberg, Germany
Resorba Medical GmbH	Germany	100%#	Development and manufacture of medical products	Am Flachmoor 16, 90475 Nuremberg, Germany
Resorba s.r.o.	Czech Republic	100%#	Manufacture and sales office of medical products	Haltravska No. 9/578, 34401, Domazlice, Czech Republic
Resorba ooo	Russia	100%#	Sales office of medical products	Fadeeva Str. 5, 125047 Moscow, Russia
Advanced Medical Solutions Israel (Sealantis) Limited	Israel	100%*~	Development and manufacture of medical products	Malat Building, Technion City, Haifa, Israel 3200004
Biomatlante S.A	France	100%~	Development and manufacture of medical products	5, Rue Edouard Belin, 44360 Vigneux de Bretagne, France
MPN Medizin Produkte Neustadt GmbH	Germany	100%#	Manufacture of medical products	Sierkdorfer Str. 15, 23730, Neustadt in Holstein, Germany
Advanced Medical Solutions (USA) Inc	USA	100%¶	Marketing support of medical products	2711 Centerville Road, Suite 400, Wilmington, Newcastle, 19808, Delaware, USA
Advanced Medical Solutions (Europe) Limited	England	100%	Providing financial support to other Group entities	Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT, United Kingdom

* Held indirectly through Advanced Medical Solutions Limited.

‡ Held indirectly through MedLogic Global Holdings Limited.

[^] s.291 of German Commercial Code invoked: No consolidated financial statements prepared for the German companies.

¶ Held indirectly through Advanced Medical Solutions (Plymouth) Limited.

Held indirectly through Advanced Medical Solutions (Germany) GmbH.

~ Acquired during the financial year ended 31 December 2019.

The above table reflects the situation at the year-end.

Notes to the Company Financial Statements

continued

4 Trade and other receivables

	2019 £'000	2018 £'000
<i>Due within one year</i>		
Prepayments and accrued income	179	412
Other receivables	–	74
Amounts due from Group undertakings	24,423	2,894
Derivative financial instruments	121	–
	24,723	3,380

Amounts Owed by Group undertakings	2019 £'000	2018 £'000
At 1 January	5,234	4,925
Movement	21,529	309
At 31 December	26,763	5,234

Provisions for impairment		
At 1 January	2,340	2,340
At 31 December	2,340	2,340

Net book value		
At 31 December	24,423	2,894

5 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Amounts owed to group undertakings	6,232	3,922
Accruals and deferred income	1,606	3,474
Derivative financial instruments	–	15
	7,838	7,411

6 Share capital

Details on the share capital of the Company are provided in Note 27 on page 118 in the Notes to the Group's accounts.

7 Share-based payments

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

	2019 £'000	2018 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Scheme	265	136
Long-Term Incentive Plan	748	936
Deferred Share Bonus Scheme	843	587
	1,856	1,659

Details on the share-based payments of the Company are provided in Note 29 on pages 119 to 123 in the Notes to the Group's accounts.

Five Year Summary

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Consolidated Income Statement (Pre-exceptional)					
Revenue	102.4	102.6	96.9	82.6	68.6
Profit from operations	25.3	28.9	25.2	19.1	17.0
Profit attributable to equity holders of the parent	20.0	22.9	20.1	15.7	14.1
Basic earnings per share	9.3p	10.7p	9.5p	7.5p	6.8p
Consolidated Statement of Financial Position					
Net assets employed					
Non-current assets	115.2	86.0	84.5	70.1	62.7
Current assets	111.8	119.2	94.5	74.9	53.9
Total liabilities	(35.7)	(32.5)	(26.7)	(19.5)	(12.9)
Net assets	191.3	172.7	152.3	125.5	103.7
<i>Shareholders' equity</i>					
Share capital & investment in own shares	10.6	10.5	10.5	10.4	10.3
Share-based payments reserve	9.5	7.3	4.7	3.5	2.3
Share-based payments deferred tax reserve	0.6	0.7	0.8	0.5	0.4
Share premium account	36.2	35.2	34.8	34.0	33.2
Other reserve	1.5	1.5	1.5	1.5	1.5
Hedging reserve	0.6	(2.4)	0.6	(3.5)	(0.5)
Translation reserve	(0.2)	3.3	2.8	0.6	(8.2)
Retained equity	132.5	116.6	96.6	78.6	64.7
Equity attributable to equity holders of the parent	191.3	172.7	152.3	125.5	103.7

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