ERGOMED

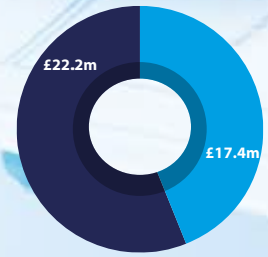
# FOCUSED ON DELIVERING GROWTH

**Ergomed plc** Annual Report and Accounts 2017

# ERGOMED PROVIDES SPECIALISED SERVICES TO THE PHARMACEUTICAL INDUSTRY.

Our offer includes clinical development, trial management and pharmacovigilance services to over 200 clients ranging from top 10 pharmaceutical and generics companies to small and mid-sized drug development companies.

**Net Service Revenue**




- Clinical Research Services: £17.4 million, growth of 9% on PY
- Drug Safety and Medical Information: £22.2 million, growth of 68% on PY

We have established a portfolio of co-development partnerships with pharmaceutical and biotech companies, using a shared risk model, and we wholly own a pipeline of proprietary development products for the treatment of surgical bleeding.



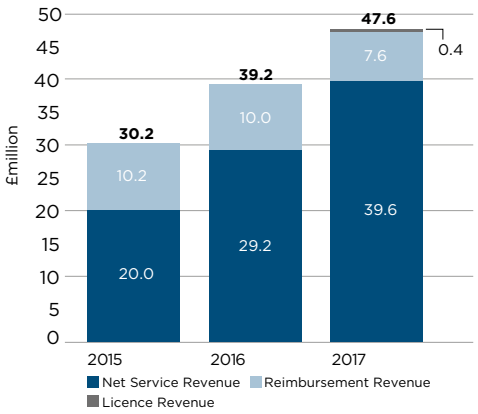

For further information, visit **www.ergomedplc.com**

## FINANCIAL HIGHLIGHTS

### Revenue

**£47.6m**

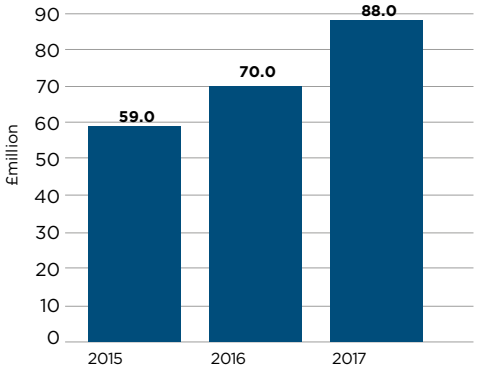
**+21%**




### Contracted Order Backlog

**£88.0m**

**+26%**




## BUSINESS HIGHLIGHTS

- Acquisition of PSR Group BV (PSR), a leading contract research organisation based in The Netherlands and focused on orphan drug development, for a total consideration of up to €5.7 million (£5.1 million) (October 2017)
- Institutional placing raising gross proceeds of £2.9 million to partially fund the initial consideration for PSR (September 2017)
- PrimeVigilance demonstrated its successful pilot project in robotic automation at an intelligent automation seminar for the International Society of Pharmacovigilance (ISOP) (December 2017)
- Board and management appointments including: Peter George, former CEO of Clinigen Group plc and Non-Executive Director of Ergomed to Chairman; Dr Miroslav Reljanovic, founder and former CEO to Executive Vice-Chairman; Stephen Stamp to CEO; and Jan Petracek to COO
- An agreement with Allergy Therapeutics plc for a multi-study co-development partnership to support three of Allergy Therapeutics' OralVac products (December 2017)
- First commercialisation deal for Haemostatix products with Boryung for South Korea (September 2017)
- Positive Phase II data from PeproStat, our wholly-owned product and the first to come from the Haemostatix pipeline (October 2017)

# SPECIALISED SERVICES PROVIDER

## WHAT WE DO

Ergomed offers a comprehensive suite of specialised services to the pharmaceutical industry. In our Clinical Research Services division, we undertake on behalf of our clients all facets of clinical trial management from Phase I to IV. In our Drug Safety and Medical Information division we provide a range of services related to the collection, aggregation and reporting of safety issues related to drugs on the market, sometimes called pharmacovigilance.

### Clinical Research Services

Over 20 years Ergomed has built particular expertise in oncology, neurology, immunology and the development of orphan drugs. Our approach is differentiated from other providers through our innovative Site Management model and Study Physician teams, resulting in a closer and more productive relationship between Ergomed and investigational sites involved in clinical trials.

Ergomed Clinical Research Services operates out of 16 offices across the Northern Hemisphere from San Antonio, US to Taipei, Taiwan and is conducting clinical trials in 55 countries.

→ See pages 6 and 7 for more information

### Drug Safety and Medical Information

Through our subsidiary PrimeVigilance, we offer the full range of drug safety and medical information services including adverse event case processing, aggregate reporting, risk management plans, signal detection and audit. PrimeVigilance, including the recently re-branded PharmInvent, is a medically led organisation with a passion for quality. This is reflected in our exceptional client retention and organic growth.

PrimeVigilance operates out of six offices from Boston, US to Belgrade, Serbia and is monitoring drugs in over 100 countries for more than 100 clients.

→ See pages 4 and 5 for more information

### Comprehensive range of services

| Services | Clinical Research Services | | Drug Safety and Medical Information | |
|---|---|---|---|---|
| | Phases I – III | Phase IV | Drug Safety | Medical Information |
| Project management | ● | ● | | |
| Patient recruitment | ● | ● | | |
| Medical writing | ● | ● | ● | ● |
| Data management / statistics | ● | ● | ● | ● |
| Regulatory affairs | ● | ● | ● | ● |
| Quality assurance | ● | ● | ● | ● |
| Adverse event case processing | ● | ● | ● | ● |
| Medical safety review / reports | ● | ● | ● | ● |
| Consulting / audit | ● | ● | ● | ● |
| Medical information | | | ● | ● |
| QPPV / Qualified person | | | ● | ● |

## OUR GEOGRAPHICAL REACH


## OUR PERFORMANCE

**New contracts won**

**£54m**

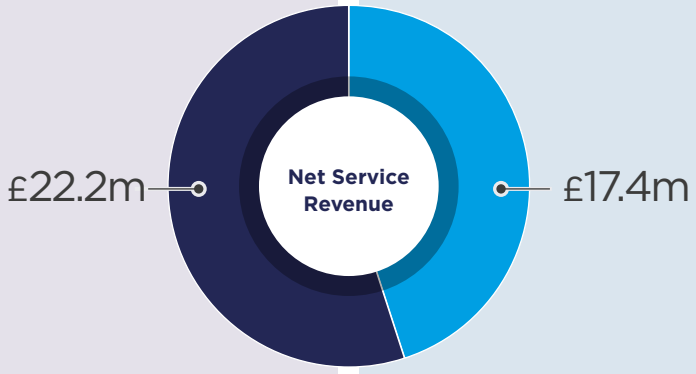
in 2017

**Order backlog**

**£88m**

at year-end

### Drug Safety and Medical Information




**Our growth**

**+68%**

+ 35% organic

**Global industry growth**

**+18%**

### Clinical Research Services

**Our growth**

**+9%**

+ 3% organic

**Global industry growth**

**+7.5%**

**Employees**

**700+**

**Active clients**

**200+**

**Patients studied**

**125,000**

**Clinical trials in**

**55**

countries

**Studies completed**

**600+**

**Adverse event cases processed p.a.**

**80,000+**

# DRUG SAFETY AND MEDICAL INFORMATION

## Through PrimeVigilance, we provide integrated drug safety and medical information services.

PrimeVigilance operates from bases in Guildford, UK; Zagreb, Croatia; Belgrade, Serbia; Prague, Czech Republic; Boston, USA and this year has opened up a sixth location in Frankfurt, Germany. PrimeVigilance is currently providing services across more than 100 countries to a range of international pharma, generic and biotech clients.

The services offered by PrimeVigilance cover all the regulatory and scientific elements of pharmacovigilance required to obtain and maintain a product licence within Europe and the US.

### OUR KEY DIFFERENTIATORS

PRIMEVIGILANCE

- EU Qualified Person
- Risk Management Planning ('RMP')
- Compliant PV System with consistent adverse event data capture
- Validated ARISg safety database
- Robust Quality Management
- Expedited reporting, preparation of PSURs, literature screening, signal detection and evaluation, benefit-risk assessment
- Compliance auditing, support during crisis and various ad hoc assignments
- Integrated international Medical Information service using AG Inquirer database

**Net Service Revenue**
**£22.2m**

**Customers**
**100+**

**Employees**
**450+**

**Services marketed in**
**100+**
countries

## ESSENTIAL PHARMACOVIGILANCE PROCESSES ALL COVERED BY PRIMEVIGILANCE


## VISION 2020

### The Global Leader in pharmacovigilance.

**In order to move from a major independent pharmacovigilance provider to the world's #1 pharmacovigilance provider, we plan to take the following strategic steps:**

1. **Increase investment in people,** attracting the best talent worldwide, and fostering talent/personal growth within our organisation.
2. **Increase investment in technology,** becoming a leader in process automation and the use of artificial intelligence in our services.
3. **Increase growth,** both organically and through acquisitions, resulting in a larger presence in major markets, and achieving further benefits from economies of scale.

### People

PrimeVigilance's reputation is built on the quality of its people. The senior leadership team includes leading pharmacovigilance experts and former senior regulators with over 300 years of combined industry experience.

Fundamental to its medic-led approach, PrimeVigilance employs 44 physicians and over 300 pharmacists and other life sciences professionals. Its network of Qualified Persons in Pharmacovigilance (QPPV) is the most extensive in Europe and includes 16 in-house and over 100 outsourced professionals covering 60 countries.

The CEO of PrimeVigilance, Dr Jan Petracek, is the former Head of Risk Management at the European Medicines Agency and has, and continues to, contribute to many national and international guidelines.

### Technology (automation)

PrimeVigilance has long had a technology driven approach to pharmacovigilance with speed, consistency and accuracy being the goal. Adverse event case processing can be executed either in an in-house validated database or in the client's own database, as required. PrimeVigilance is able to offer case processing in either of the two leading global databases.

More recently, PrimeVigilance has been identified as an industry leader in the deployment of robotic process automation (RPA) software in routine pharmacovigilance processes. In pilots, PrimeVigilance has been able to demonstrate very significant improvements in efficiency through time savings and in accuracy.

PrimeVigilance's strategy is to continue to invest in technology to drive efficiency, enhance quality and, as a result, competitiveness.

# CLINICAL RESEARCH SERVICES

ERGOMED's approach is focused on effective patient recruitment to reduce time and cost of clinical trials.

Ergomed has 20 years' experience working across the world in many therapeutic areas, with a particular expertise in oncology, neurology and immunology and the development of orphan drugs. Solutions are tailored to meet the requirements of individual clients and specific projects with an uncompromising commitment to quality standards.

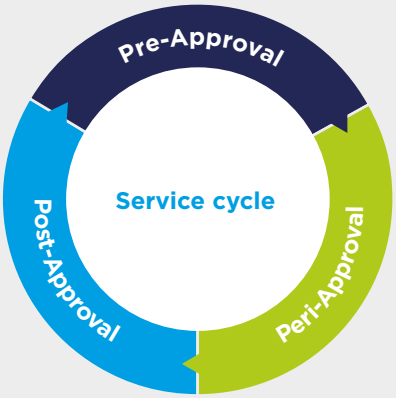
**ACQUISITION UPDATE**

**Reinforcing our position in orphan drug development services.**

**Acquisition of PSR for up to**

**€5.7m**

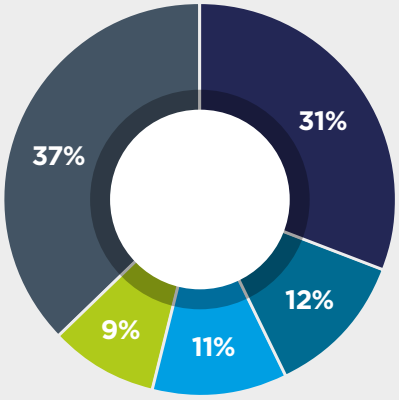
## CLOSING THE DEVELOPMENT CIRCLE




As a mid-sized full-service CRO, Ergomed differentiates through:

- 25% of staff with PhD, MD
- Site management program specifically built to increase study performance
- Focus on orphan drug development
- Presence in MENA region
- Therapeutic specialisations:
  - Oncology, Respiratory, Neurology

## THERAPEUTIC AREA EXPERTISE (NO. OF TRIALS)



## OUR KEY DIFFERENTIATORS

Ergomed believes its approach to clinical trials is differentiated from other providers by its innovative Study Site Management model and the use of Study Physician Teams resulting in a closer relationship between Ergomed and the physicians involved in clinical trials. As well as providing high quality clinical development services, Ergomed is building a portfolio of co-development partnerships with pharma and biotech companies which share the risks and rewards of drug development. Ergomed leverages its expertise and services in return for carried interest in the drugs under development.

### Focusing on patient recruitment with efficient management and control of complex trial protocols

**Study Physician Team**

Peer-to-peer support

•

Develops best practice across treatment centres

•

Provides expertise for particular study designs

**Site Management Team**

Enhanced recruitment

•

Increased retention

•

More evaluable patients

**Hospital**

•

Investigator

•

Nurses/Site Staff

**Net Service Revenue**

**£17.4m**

**Studies completed**

**600+**

**Clinical trials in**

**55**

**countries**

# HAEMOSTATIX


Patented fibrinogen-binding peptide technology

## Haemostatix has developed a new class of peptide based coagulant, or 'haemostat', for the control of bleeding in surgery.

The Company has pioneered a new approach to haemostasis that is based on a peptide that binds to the protein fibrinogen, inducing the rapid and targeted formation of clots. This innovative technology platform is being used to develop a pipeline of topical products to treat surgical bleeding with further applications in tissue repair and regenerative medicine.

### Surgical bleeding and its markets

The haemostat market is worth $2.5Bn and is expanding globally at 6 to 8% per annum. Growth in several market segments, and emerging economies has exceeded 10% per annum. The market leader is blood derived thrombin, a relatively fragile molecule requiring storage in a dry or frozen form. Haemostatix's peptide-based coagulants are blood-free, have greater stability enabling the formulation of ready-to-use liquids and gels, and have a mode of action that is faster than thrombin-mediated clotting.

**Peak sales potential**

**$500m**[1]

1 Internal estimate

**PeproStat™**

Reduced time to haemostasis by 1.6 minutes versus standard of care.

## PRODUCT PIPELINE

### PeproStat™ Liquid

A topical liquid haemostat that is applied to wounds to control bleeding during surgery. PeproStat has a novel mode of action that is fast and effective. The peptide-based coagulant is manufactured from blood-free components and is formulated as a ready-to-use solution, to be used with commercially available resorbable sponges. Current products are typically blood-derived and often require re-constitution or thawing prior to use.

### Positive PeproStat Phase II results

In October 2017, we announced positive Phase II results of PeproStat in surgical bleeding. The trial met its primary endpoint and was completed approximately six months ahead of schedule. PeproStat showed a reduction in time to haemostasis by 1.6 minutes compared with standard of care time to haemostasis of 5.8 minutes. It also met key secondary endpoints and was highly rated by investigators. No treatment related serious adverse events or re-bleeding were observed. These results reinforce PeproStat's potential as a safe, blood-free, ready-to-use and cost-effective method of controlling bleeding during surgery.

### HXP12 ReadyFlow™

A flowable gel-based haemostat that is applied with a syringe and nozzle enabling less accessible wounds to be treated, as well as wounds with uneven surfaces. HXP12 ReadyFlow is composed of a heat-stable peptide active substance mixed with a transparent particulate gel and pre-filled in a ready-to-use syringe. Current products in this rapidly expanding market segment require eight preparation steps prior to use, are blood derived, and opaque, obscuring the wound site. HXP12 ReadyFlow won first prize in the pan European Emerging Technology Competition run by the Royal Society of Chemistry.

# CO-DEVELOPMENT PARTNERSHIPS

Ergomed has developed an innovative model for sustainable drug development and is a source of potential upside.

Ergomed has established a portfolio of co-development partnerships with pharmaceutical and biotech companies. By reducing service fees, Ergomed has secured either a share in future revenues derived from the product or, in the case of single product companies, an equity stake in the partner company.

The Ergomed team screen up to 100 co-development candidates in any given year and may carry out detailed due diligence on a dozen or less with a view to concluding one or two deals per annum.

Expansion of the co-development pipeline will not be a strategic priority for the Company going forward.

## CO-DEVELOPMENT MODEL

**Reduction in fees**

**30-50%**

**Ergomed investment**

**£1-15m**

**Allows Ergomed to focus on Clinical**

**Partner focuses on CMC, Pre-Clinical, Commercialisation**

**Share of revenue**

**5-15%**

or

**Equity share of company**

**Our diversified product pipeline**

| Compound | Partner | Pre-clinical | Phase I | Phase II | Phase III |
|---|---|---|---|---|---|
| **Partnership** | | | | | |
| Multikine | Cel-Sci | Head & Neck Cancer | | | |
| Lorediplon | Ferrer | Insomnia | | | |
| Sevuparin | Modus Therapeutics | Sickle-Cell Disease | | | |
| Sepranolone | Asarina Pharma | Premenstrual Dysphoric Disorder | | | |
| OralVac | Allergy Therapeutics | HDM, Grass, Trees | | | |

# FOCUSED ON STRATEGY

**Peter George**
Chairman

2017 saw continued very strong performance for Ergomed in the services business and particularly in the Drug Safety and Medical Information business. The Board sees this area and specialist CRO services such as orphan drug development as significant opportunities where Ergomed can take global leadership positions and continue to grow.

The appointment of Stephen Stamp as CEO and Dr Jan Petracek as COO was a catalyst for the re-aligned Board to review Ergomed's growth opportunities and set strategic priorities which will see greater focus on the services business and a targeting of the Company's resources at those areas.

The co-development pipeline continues to represent a differentiator for the CRO business and is a source of potential upside but with increased focus on the services business, expansion of the pipeline will not be a strategic priority. Having delivered strong Phase II clinical trial results for PeproStat, the Company intends to pursue further development of the Haemostatix assets through partnerships and collaborations.

The integration of pharmacovigilance services under the PrimeVigilance brand, which commenced during 2017, was successfully completed in 2018 and the acquisition of PSR, a specialist orphan CRO, contribute to a firm foundation for the Company's strategic priorities.

I look forward to further progress this year and in the future.

**Peter George**
Chairman

INVESTMENT CASE

Ergomed's services businesses provide differentiated offerings in growth markets with drug development upside potential.

## ACQUISITION OPPORTUNITIES

We have acquired and successfully integrated five services acquisitions since IPO in mid-2014, all of which have been earnings enhancing. Strategic acquisitions which add specialist skills and/or geographic coverage to our services offering remain key to our growth strategy.

## FAVOURABLE MARKET DRIVERS

The trend to outsource continues to drive growth in pharmaceutical services. The contract research market is expected to reach $59Bn by 2020[1] and the pharmacovigilance market, at around $3Bn, is growing at 18% pa[2]. The Contract Research services market overall is growing at 7.5% pa[3].

## PRODUCT DEVELOPMENT UPSIDE

We have economic interests in five drug development programmes through co-development partnerships together with two lead products from our wholly-owned Haemostatix subsidiary. A milestone event from any one of these interests could have a material positive impact on Ergomed.

## HIGH GROWTH

In 2017, our net service revenues grew at 36% pa, driven by growth of 68% in our Drug Safety and Medical Information segment. Organic growth in DS&MI was 35%. With Contract Research services, our focus will be on orphan drug development. The market for orphan drugs is expected to reach $200Bn by 2022[4].

## DEBT FREE, NET CASH POSITION

Ergomed's cash at hand at 31 December 2017 was £3.2 million with zero debt. We retain the flexibility to access the capital markets and/or leverage our balance sheet for strategic acquisitions, as appropriate.

## MARKET LEADERSHIP

PrimeVigilance is a leading provider of drug safety and medical information services in Europe. Our goal is to be the leading global provider by 2020. Within Contract Research services, we aim to be the leading provider in orphan drug development, building on the acquisition of PSR Group in October 2017.

1. Source: Zion Research 2014
2. Source: Global Market Insights 2016
3. Source: Global Data 2016
4. Source: Evaluate Pharma Orphan Drug Report 2017

# DELIVERING ON GROWTH

**Stephen Stamp**
Chief Executive Officer

I am pleased to report on another year of strong growth in our service businesses and one which has also seen clinical success. We see significant opportunities to build on the foundations we have established in high-growth areas within the pharmaceutical services market and, specifically, to take leadership positions in pharmacovigilance and orphan drug development services. We believe this will deliver further growth and shareholder value in the future.

## Services

Overall it was a strong year within the services businesses. New business won in 2017 of £54 million, up 29% on 2016, helped drive net service revenue growth of 36% to £39.6 million. Total service revenue, including reimbursement revenue, increased 21% to £47.6 million.

EBITDA (adjusted) for the year was £2.8 million compared with £2.8 million in 2016. R&D expense, related to the development of the Haemostatix products, was £2.7 million in 2017 and £1.2 million in 2016. The EBITDA (adjusted) of our services businesses (excluding R&D) was £5.5 million in 2017 compared with £4.0 million in 2016.

### *Drug Safety & Medical Information (DS&MI)*

The DS&MI business, which comprises the PrimeVigilance and PharmInvent companies, performed exceptionally strongly. Net service revenue from the DS&MI segment, increased 68% to £22.2 million in 2017 from £13.3 million in 2016. Excluding the PharmInvent acquisition (completed in November 2016), organic growth of the DS&MI segment was 35%.

PharmInvent was acquired in November 2016, and immediately successfully collaborated with PrimeVigilance to provide a comprehensive pharmacovigilance service offering to existing and new clients of both companies. The integration was completed early in 2018, with both companies now operating under the PrimeVigilance brand led by Dr Jan Petracek. PrimeVigilance now employs over 450 employees with hubs in Guildford, UK; Belgrade, Serbia; Prague, Czech Republic; Boston, USA; and Zagreb, Croatia.

PrimeVigilance, which is already a significant investor in information technology, has initiated the implementation of robotic process automation for certain routine pharmacovigilance processes, resulting in significant improvements in efficiency and accuracy. PrimeVigilance's strategy of investing in people and technology is designed to drive further growth with the aim of becoming the global leader in pharmacovigilance by 2020. The global pharmacovigilance market is forecast to grow to more than $8Bn by 2024 from around $3Bn in 2015, with contract outsourcing forecast to expand from around 30% of the market in 2015 to approximately 50% in 2024. (Source: Global Market Insights 2016.)

### *Contract Research Services (CRS)*

Net service revenue from the CRS segment increased 9% to £17.4 million in 2017 from £15.9 million in 2016. Excluding the PSR acquisition (October 2017), organic growth was 3%.

Consistent with our acquisition strategy of adding specialist skills and/or geographic coverage, PSR was acquired in October 2017 for a total consideration of up to €5.7 million (£5.1 million). PSR is a specialist contract research organisation based in The Netherlands that specialises in the development of orphan drugs for rare diseases. Orphan drug development is a growing area, with up to 30 million people worldwide estimated to suffer from rare diseases (Source: Evaluate Pharma Orphan Drug Report 2017). The logistical, regulatory and operational complexities associated with orphan drug trials require specialised approaches. PSR, combined with Ergomed's site management organisation and study physician groups, is ideally suited for efficient management of these types of trials.

The Company's goal is to become the leading global contract research organisation for orphan drug development and, overall, to continue to outpace the market for clinical research services.

Global demand for quality outsourced drug safety services and drug development remains strong and Ergomed continues to benefit from these trends. Ergomed ended 2017 with a total backlog of contracted work with a value to be invoiced in future years of approximately £88 million (2016: £70 million).

## Product development

### *Co-development*

A new co-development deal with Allergy Therapeutics plc (LSE: AGY) was announced in December 2017.The multi-study co-development partnership is aimed at supporting the commercialisation of Allergy Therapeutics' OraiVac platform and could include studies of three OraiVac products.

The Company also announced the following updates during the year:

- Ferrer: In February 2017, Ferrer announced data from the successful Phase II study of lorediplon in insomnia.
- Aeterna Zentaris (NASDAQ: AEZS; TSX: AEZ): In May 2017, Aeterna Zentaris announced termination of their programme after Zoptrex™ showed no treatment benefit over doxorubicin control.
- CEL-SCI (NYSE: CVM): The FDA lifted the clinical hold for Multikine® in August 2017 and the Phase III study in head and neck cancer is continuing as initially planned.

We believe our co-development pipeline continues to offer potential upside as programmes progress and move towards commercialisation. However, as we increase our focus on the opportunities within our service businesses to take leadership positions in high-growth markets, the Board has concluded that expanding the co-development pipeline is no longer a strategic priority for the Company. We do not anticipate announcing new co-development deals, unless material, but will continue to benefit from our experience and ability to engage in co-development selectively as a differentiator for our CRO offering.

### *Haemostatix*

In October, the Company announced positive Phase II results of PeproStat in surgical bleeding, the first product to come from the Haemostatix portfolio. The trial met its primary endpoint and was completed approximately six months ahead of schedule. PeproStat showed time to haemostasis of 4.2 minutes, a reduction of 1.6 minutes compared with standard of care time to haemostasis of 5.8 minutes. It also met key secondary endpoints and was highly rated by investigators. No treatment related serious adverse events or re-bleeding were observed. These results reinforce PeproStat's potential as a safe, blood-free, ready-to-use and cost-effective method of controlling bleeding during surgery.

The second product, HXP12 ReadyFlow™, a flowable gel, is proceeding with preclinical development and is expected to be ready for Phase I in 2018.

A license for rights to PeproStat and HXP12 ReadyFlow in South Korea was signed in October 2017.

| Net Service Revenue | Services EBITDA (adjusted) |
|---|---|
| **£39.6m** | **£5.5m** |
| +36% | +£1.5m |
| **New Business Won** | **Contracted Order Backlog** |
| **£54m** | **£88m** |
| +29% | +26% |

The Company's strategy is to pursue further development of the Haemostatix assets through partnerships and collaborations. We anticipate further modest investment in R&D related to Haemostatix during 2018, in line with current market expectations.

## Outlook

A contracted backlog of £88 million underpins Ergomed's ability to deliver its targets for 2018. Drug safety and medical information services make up an increasing proportion of our overall revenues and owing to their greater predictability and exceptional growth we benefit from greater visibility than with clinical research services which, although capable of attractive margins are lumpy by nature and highly competitive.

More generally during the coming period we expect to continue to deliver on our strategy of focusing on the growth and profitability of our services businesses, supplemented by acquisitions that expand the services offering or geographical coverage, or both.

**Stephen Stamp**
Chief Executive Officer

# ACCELERATED GROWTH

## OUR MISSION

**Building a profitable services business targeting global leadership in pharmacovigilance services and orphan drug development by 2020.**

The Board continually looks for opportunities to capitalise on Ergomed's expertise with the following key components:

Augment the organic growth of its services business with selective acquisitions to add complementary services and/or geographical coverage to the Company's current offering.

The Board is committed to pursuing both components of the growth strategy in parallel and maintaining a balance between services income and development costs.

**Strategic priorities**

**GROWTH**

**ACQUISITIONS**
STRATEGIC AND SELECTIVE

**PRODUCT DEVELOPMENT**
PARTNERSHIPS

## Strategy

Growth must be the foundation of any healthy company and is the primary focus of the Board. We constantly measure ourselves against prior period performance and against our peers and competitors.

The market for out-sourced clinical research is relatively mature and is dominated by mainly large US-based companies. To compete effectively, we must play to our strengths, including our innovative Study Site Management model, and utilise our Study Physician Group to competitive advantage.

The market for out-sourced pharmacovigilance and medical information, while smaller, is less competitive. PrimeVigilance is a leading independent pharmacovigilance and medical information provider in Europe.

## Progress

### Drug Safety and Medical Information

**+68%**
Ergomed
+35% organic

**+18%**
Industry

Source: Global Market Insights 2016

### Clinical Research Services

**+9%**
Ergomed
+3% organic

**+7.5%**
Industry

Source: Zion Research 2014

Services acquisitions are a key component of Ergomed's growth strategy with an emphasis on:

- Services and skills which complement our existing services. We can offer a broader ('one-stop-shop') suite of services to customers, reducing reliance on partners and expanding margins.
- Geographical expansion. Although we have preferred subcontract providers in some markets, having our own presence in certain key markets ensures quality control, scalability and, again, enhanced margins.

### Acquired in October 2017

PSR

The co-development pipeline continues to represent a differentiator for the CRO business and is a source of potential upside but with increased focus on the services business, expansion of the pipeline will not be a strategic priority.

The Company's strategy is to optimise the value of the Haemostatix assets by pursuing their further development through partnerships and collaborations.

### Optimise value

Haemostatix

# ORPHAN SPECIALIST ACQUISITION

Acquisition of PSR Group BV, a specialist orphan drug CRO.

## Overview

The acquisition is consistent with Ergomed's strategy to grow its existing, profitable services business both organically and through bolt on acquisitions. PSR's extensive expertise in orphan drug development complements Ergomed's services and will further strengthen Ergomed's orphan drug development capability in addition to expanding its current services portfolio.

## The acquisition

PSR was acquired in October 2017 for up to €5.7 million, including initial consideration of €3.2 million. Ergomed's strategy is to continue to grow PSR's global orphan drug development business under the PSR brand and will remain focused on its two divisions: (1) PSR Orphan Experts, which is a leading expert in supporting biotech and pharma companies with their regulatory and clinical development of orphan drugs; and (2) PSR Pharma Resource, which complements PSR Orphan Experts as a niche staffing provider, focused on orphan drug specialised staff.

## Background

PSR, established in 1998, and based in The Netherlands, is a specialist orphan drug CRO and recognised as a leading expert in rare diseases. PSR specialises in running complex orphan drug development programs requiring innovative regulatory and clinical approaches as well as pricing and reimbursement strategies. Besides outsourced project solutions, PSR provides insourced staffing solutions (orphan drug teams), temporary and permanent staffing, interim management solutions as well as training/coaching career programs.

PSR's dedication to the rare disease landscape is exemplified by an extensive track record of orphan drug projects in a wide range of therapeutic areas, its continued efforts to achieve true patient centricity and its societal commitments by participation in fundraising activities and public-private partnerships. For further information, visit: www.psr-group.com.

## OUR KEY DIFFERENTIATORS

- Acquisition accelerates Ergomed's leadership in orphan drug development services
- PSR's specialist orphan drug development brand complements Ergomed's existing strong expertise in this area
- PSR will expand Ergomed's services portfolio and geographical coverage
- Acquisition expected to be immediately accretive to earnings

## AWARDS

Winner 'Best CRO' ROAR Awards multiple times

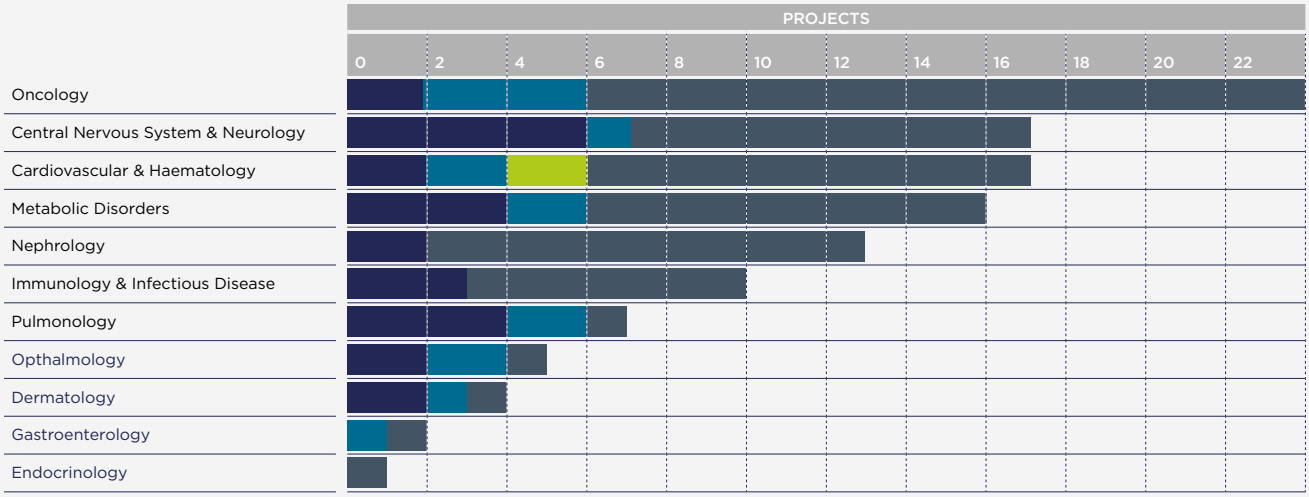
## DISCOVER OUR ORPHAN ADVANTAGE

Orphan diseases are severe, debilitating or even life-threatening conditions which affect fewer than 1 in 2000 people (EU definition) or fewer than 200,000 people in the US (US definition). Although patient numbers in individual indications are limited, there are a total of 30 million people worldwide suffering from rare diseases.

Orphan drugs represent approximately 21% of all prescription drugs with the market growing at 11% pa and expected to reach $200Bn by 2022 driven, in part, by the trend towards personalised medicine.

The nature of orphan drug trials requires highly specialised providers due to the regulatory, logistical and operational complexities of conducting clinical trials in these indications. Studies typically are complex and run in small patient cohorts and Ergomed's Site Management model and Study Physician group can be key success factors in recruiting and managing orphan drug trials.

### Our orphan experience distributed across our various services and further split into therapeutic areas




### Partnered with a small biotech on 7 individual retrospective and prospective studies

- 3 Phase I studies
- 1 Phase I-II
- 1 Phase III
- 1 Compassionate use study

### Projects where we provided regulatory consultancy

**49**

### Studies totalled:

- Patients: 759
- Sites: 27
- Countries: 9
  - Austria, Denmark, France, Germany, Israel, Italy, Japan, Spain, UK
- Services included across the program:
  - Project Management, Monitoring, Site Management, Regulatory, Safety, Data Management, Biostatistics, Medical Writing, QA
- Ergomed is working with the Sponsor to continue the study in North America

# SOLID RESULTS UNDER-PINNED BY DS&MI

## Key Performance Indicators

The Directors consider the principal financial performance indicators of the Group to be:

| £m | 2017 | 2016 |
|---|---|---|
| Net service revenue | **39.6** | 29.2 |
| Gross profit | **14.6** | 12.0 |
| Research and development expenditure | **2.7** | 1.2 |
| EBITDA (adjusted) (note 38) | **2.8** | 2.8 |
| Cash and cash equivalents | **3.2** | 4.4 |

The Directors have substituted total revenue with net service revenue as a key financial performance indicator. In line with industry practice, net service revenue excludes reimbursement revenue and also excludes licence revenue, providing a clearer picture of underlying services growth.

The Directors consider the principal non-financial performance indicators of the Group to be:

- The delivery of high quality services that continue to meet the highest industry standards as evidenced by internal and external quality audits.
- The development or acquisition of new and/or the expansion of existing service offerings.

Non-financial performance indicators are routinely reviewed by the Directors at Board meetings.

During 2017, the Group was audited multiple times by customers and regulators, with no critical findings. In addition, during 2017, the Group expanded its specialist orphan drug development capabilities through the acquisition of PSR.

## Consolidated income statement

Net service revenue for the year ended 31 December 2017 was £39.6 million (2016: £29.2 million), an increase of 36%, driven by 68% growth in Drug Safety and Medical Information, complemented by 9% growth from Clinical Research Services. Excluding the impact of acquisitions, net service revenue grew at 18%.

Total revenue, including reimbursement revenue and licensing income for the year ended 31 December 2017 was £47.6 million (2016: £39.2 million), an increase of 21%. Reimbursement revenues are explained in note 1.

Gross profit from service revenue was £14.3 million and gross margin was 36% (2016: gross profit £12.0 million and gross margin 41%). To support future growth, the Company made substantial investments in its Clinical Research Services business, particularly in the US. Compared to a traditional clinical research organisation (CRO) service provider, Ergomed's gross margin can fluctuate because of its co-development activities, where Ergomed undertakes clinical studies at reduced fees in return for carried interests in the partnered product. In addition, the Company's Drug Safety & Medical Information business made significant investments in headcount, particularly in Serbia, to support impending new contracts.

Administration expenses were £16.0 million (2016 restated: £10.8 million), an increase of £5.2 million. Included in administrative expenses are increases in amortisation of acquired fair valued intangible assets of £0.4 million, share-based payment charge of £0.1 million, deferred consideration for acquisitions relating to post acquisition remuneration of £0.2 million, revaluation of deferred consideration of £2.9 million offset by a reduction in acquisition costs and exceptional items of £0.3 million.The increase in other administrative expenses of £1.4 million was driven by an additional £0.9 million of overhead in acquisitions, £0.1 million additional recruitment costs, £0.2 million increase in investor relations and public relations activities, £0.2 million increase in depreciation and foreign exchange losses of £0.5 million (compared to foreign exchange gains of £0.3 million in 2016), offset by a £0.8 million reduction in provision for doubtful debts.

Research and development costs expensed in the year were £2.7 million (2016 restated: £1.2 million) relating to Haemostatix and included chemistry, manufacturing and controls (CMC) costs for clinical trial material, the costs of the Phase II clinical trial of PeproStat and pre-clinical formulation development costs for ReadyFlow.

Other operating income includes £0.1 million in respect of an R&D tax credit. In 2016, an R&D credit of £0.2 million was included in the tax charge.

Cash settled deferred consideration for achieving 2017 financial targets of £0.8 million (2016: £0.6 million) in respect of PharmInvent has been charged to profit and loss in the year as it is tied to the continued employment of the vendors. Equity settled deferred consideration is included within the share-based payment charge for the year.

The Company incurred acquisition costs totalling £0.3 million (2016: £0.6 million) in the year, primarily in respect of the PSR acquisition. In addition, £0.1 million in respect of severance costs in relation to the former CEO were recognised as an exceptional item.

Included in finance charges is £0.5 million (2016: £0.3 million) relating to the unwinding of the discount applied to contingent consideration for Haemostatix and £0.1 million (2016: £nil) relating to the unwinding of the discount applied to contingent consideration for PSR.

## Consolidated balance sheet

As at 31 December 2017 total assets less total liabilities amounted to £34.8 million (2016 re-stated: £34.4 million see note 14) including cash and cash equivalents of £3.2 million (2016: £4.4 million).

The principal movements in the Consolidated balance sheet during the year were:

- Acquisition of PSR in October 2017 and the associated goodwill of £2.5 million and intangible assets of £0.7 million.
- Increase in trade and other receivables by £4.8 million reflecting higher trading levels, a reduction in bad debt provision of £0.8 million and a £0.3 million increase in other current assets.

- An increase in trade and other payables of £3.6 million reflecting higher trading levels.
- An increase in deferred consideration (current and non-current) of £0.6 million in respect of PSR and £3.4 million in respect of Haemostatix, comprising £0.5 million for the unwinding of the discount applied and an additional £2.9 million revaluation increase.
- An increase in share premium, arising from the institutional placing in October 2017, net of costs.
- An increase in merger reserve, arising from the acquisition of PSR and contingent share issues in settlement of deferred consideration in relation to the acquisitions of PharmInvent and PSR.

## Consolidated cash flow statement

At present, the Group does not have any borrowings or long term debt apart from a few immaterial fixed asset finance leases.

Cash Inflows from operating activities before changes in working capital in the year were £1.3 million (2016 restated: £2.5 million). Changes in working capital included a £3.5 million increase in trade and other receivables, a £0.3 million increase in other current assets and a £2.8 million increase in trade and other payables.

Cash outflows from investing activities were £3.9 million (2016: £5.8 million) including £2.0 million related to the acquisition of PSR and £0.5 million related to a PharmInvent earn-out payment, £0.7 million for the acquisition of tangible assets and £0.7 million for the acquisition of intangible assets.

Cash inflows from financing activities included proceeds of a placing of £1.9 million net of expenses to fund the acquisition of PSR.

The Group also paid taxation of £0.4 million in 2017 (2016: £0.9 million).

## Going concern

As at 31 December 2017 the Group had £3.2 million in cash and cash equivalents and a strong backlog of signed contracts. The Directors therefore expect Ergomed's services business to be cash generative.

**Revenue**
**£47.6m**
2016: £39.2m

**Net Service Revenue**
**£39.6m**
2016: £29.2m

**EBITDA**
**£(2.3)m**
2016: £1.1m

**EBITDA (adjusted)**
**£2.8m**
2016: £2.8m

# PRINCIPAL RISKS

There are number of risks and uncertainties associated with the Group's activities. The Board believes the following are the principal risks, along with the mitigation actions being pursued.

| Strategic priorities | Movement | Mitigation of risk |
|---|---|---|
| **Competition**<br><br>Ergomed's competitors and potential competitors include companies which may have substantially greater resources. Generally, the ability of Ergomed to win new business or repeat business from existing customers is a key risk and if the business development function fails to deliver new, profitable contracts then Ergomed's profits and cash flows will suffer. | – | Ergomed employs an experienced team of business development executives to generate leads and close contracts for new business.<br><br>Ergomed aims to provide high quality services at competitive rates, drawing upon its differentiators in the marketplace, as appropriate. |
| **Cancellation or delay of clinical trials or projects by customers**<br><br>The customers of Ergomed may cancel or delay proposed clinical trials or pharmacovigilance projects without notice or upon short notice. The cancellation or delay of a clinical trial may result in a risk of Ergomed having to reduce its staff overheads which could in turn have a negative impact on the Group's profitability. | ↑ | The terms of Ergomed's contracts seek to mitigate the impact of cancellation or delay by structuring standard study close down procedures with the customer.<br><br>In addition, pharmacovigilance contracts contain provisions for transition of services. |
| **Foreign currency risk**<br><br>A significant proportion of Ergomed's business is carried out outside the UK and in the relevant local currency. To the extent that there are fluctuations in exchange rates, this may have a material impact on Ergomed's financial position or results of operations. | ↑ | Ergomed seeks advice from specialist foreign currency brokers, regularly reviewing the geographical mix of its operational costs and also its currency revenue streams and by the inclusion of exchange rate reviews in its major commercial contracts. |
| **Dependency on pharmaceutical industry**<br><br>Ergomed's current revenue results from expenditure by pharmaceutical and biotech businesses on research and development and regulatory compliance. If customers or potential customers in this sector were to:<br>• reduce such expenditure, in particular by reducing the numbers of drugs put into clinical trials;<br>• seek to retain work in-house rather than outsourcing it; and/or<br>• consolidate through the vertical integration of their businesses and choose not to engage Ergomed<br>then Ergomed's business could be negatively impacted. | ↓ | Ergomed seeks to maintain diversification in all aspects of its customer base including:<br>• Large pharmaceutical vs biotech vs generics customers<br>• US vs European based customers<br>• Pre-product approval clinical trials vs post-approval trials and pharmacovigilance services<br>and actively engages with its customers to protect its existing relationships and build new ones. |

↑ increased risk

– no change

↓ decreased risk

| Strategic priorities | Movement | Mitigation of risk |
|---|---|---|
| **Legislation and regulation of the pharmaceutical and biotechnology industries**<br><br>An element of Ergomed's competitive advantage stems from its ability to navigate the regulated medicinal products approval processes and pharmacovigilance regulations which are expensive and complex. If there were to be substantial relaxation of such processes, cross jurisdictional harmonisation or simplification of the legislative or regulatory framework, this could reduce the barriers to entry which prospective competitors face, thereby eroding the Group's competitive advantage. |  | Ergomed is a strong advocate of rigorous Good Clinical Practice (GCP) guidelines and pharmacovigilance regulation.<br><br>Our management team includes former senior regulators in the European Medicines Agency and, through industry associations, remain active promoters of regulation. |
| **Licences, approvals and compliance**<br><br>Ergomed is dependent on certain licences and regulatory approvals. Non-compliance with those licences could, in extreme cases, be restricted or revoked, which could adversely affect Ergomed's business and future prospects. More generally, Ergomed operates in an environment which is subject to detailed and complex regulation. |  | Ergomed maintains a highly professional Quality Assurance team and self-audit programme which checks on all aspects of compliance on a structured basis.<br><br>In addition, customers audit Ergomed's compliance on a weekly basis. |
| **Customers, pricing and payment terms**<br><br>Some of Ergomed's customers may have substantial purchasing power and negotiating leverage. While Ergomed has historically been able to secure good contractual terms, there can be no assurance that it will continue to be able to do so in the future. In certain cases Ergomed may accept payment terms which impact adversely upon the revenue received by, the margins achieved by, and the cash flow of, Ergomed in any given period. |  | Ergomed has experienced proposal development and budgeting personnel within each of its clinical research and pharmacovigilance teams tasked with preparing bids for new work with target margins.<br><br>In addition, Project Managers are tasked with ensuring that relevant costs are passed through to customers and all billable tasks are recorded and appropriately billed. |
| **Dependence on a limited number of key clients**<br><br>A significant proportion of the Group's revenue is derived from a relatively small number of clients. The percentage of the Group's total revenue generated by the top five clients in the year ended 31 December 2017 was 40% (2016: 51%). The loss of any client who represent a significant proportion of Ergomed's revenue could have a negative impact on operating results and cash flows. |  | A significant part of the business development team's focus is generation of leads and requests for proposals from new clients to diversify the Company's customer base.<br><br>The Company's organic growth combined with acquisitions is naturally diluting reliance on relatively few large clients. |

Approved by the Board of Directors
and signed on behalf of the Board.

**Stephen Stamp**
Director

# BOARD OF DIRECTORS

**Peter George**
**Non-Executive Chairman**

Peter George joined Ergomed as a Non-Executive Director in May 2014 and was elected Non-Executive Chairman in April 2017. Peter has over 20 years' experience in the pharmaceutical services industry, most recently as Chief Executive Officer of Clinigen Group plc (AIM: 'CLIN'), the global speciality pharmaceuticals and pharmaceutical services business. Peter stepped down as CEO of Clinigen in November 2016 and as a non-executive director in November 2017. Prior to Clinigen, he was CEO at Penn Pharma, having led a £67 million management company buy-out in 2007. Before this, Peter was executive Vice President for Wolters Kluwer Health with responsibility for Europe and Asia Pacific regions. Peter has also held roles as the Chief Operating Officer of Unilabs Clinical Trials International Limited, Head of Clinical Pathology in the Oxford region of the NHS and as Director of PharmaPatents Global.

**Stephen Stamp**
**Chief Executive Officer, Chief Financial Officer**

Stephen Stamp joined Ergomed as Chief Financial Officer in January 2016 and was appointed Chief Executive Officer in December 2017. Prior to joining Ergomed, Stephen worked in the US as Chief Financial Officer of AssureRx Health, Inc. Prior to that he was CFO of EZCORP, Inc and Chief Operating Officer and CFO at Xanodyne Pharmaceuticals, Inc. Before leaving for the US, Stephen was Group Finance Director of Shire plc and Regus Plc. Earlier in his career, Stephen was an investment banker with Lazard in London, advising mainly public companies on cross-border M&A and corporate finance. Prior to Lazard, he worked for KPMG in London where he qualified as a Chartered Accountant. Stephen holds a BA (Econ) from The University of Manchester.

**Dr Miroslav Reljanovic**
**Founder and Executive Vice Chairman**

Dr Miroslav Reljanovic is a medical doctor and a board-certified neurologist. Whilst practicing as a physician in a large WHO Collaborating Centre in Zagreb, he was the clinical investigator in numerous Phase II and III studies in the field of neurology and a consultant to various pharmaceutical companies. In 1997 Miro founded Ergomed and he introduced the novel Study Site Coordination model as an intrinsic part of the conduct of clinical studies. Together with co-founder Elliot Brown, MB, MRCGP, FFPM, a well-known international expert in drug safety, Miro started PrimeVigilance in 2008, which soon became a leading specialist vendor of contracted pharmacovigilance services to the pharmaceutical industry.

**Andrew Mackie**
**Chief Business Officer**

Andrew Mackie joined Ergomed as Chief Business Officer in 2015 having worked with the Company as a consultant since 2004. He has been instrumental in developing the co-development business and negotiating the partnerships signed to date. Prior to joining Ergomed, Andrew worked in the Business Development group at Eli Lilly, having previously been Head of Life Sciences at IP Group and Head of Alliance Management at Antisoma. Prior to that, Andrew held a variety of R&D positions at Novartis, Sanofi and MDS. Andrew holds a BSc in biochemistry from Queen's University (Canada), an LLB from the University of London and an MBA from the London Business School.

**Dr Jan Petracek**
**Chief Operating Officer**

Dr Jan Petracek was appointed to the Board as Chief Operating Officer in December 2017. Jan has been Chief Executive Officer of PrimeVigilance since April 2017, having joined the Ergomed group in November 2016 following the acquisition of European PharmInvent Services s.r.o. where he was founder and CEO. Dr Petracek is the former Head of Risk Management at the European Medicines Agency and the former Head of Pharmacovigilance, Strategy and Development at the State Institute for Drug Control in the Czech Republic. He studied Quality and Safety in Healthcare (MSc) at Imperial College London and trained as a physician at Charles University in Prague (MD).

**Christopher Collins**
**Non-Executive Director**

Christopher was the CEO and a founding partner of Code Securities, a healthcare-focused advisory and broking firm, which was formed in 2003, acquired by Nomura in 2005 and continued as Nomura Code Securities until late 2013. Chris was previously head of the Life Sciences Group at WestLBPanmure, having founded that firm's activities in the sector in 1993. He has advised companies at all stages of development on transactions including private financings, IPOs, secondary offerings and mergers and acquisitions. Prior to WestLBPanmure, Chris was Managing Director of Corporate Finance at Panmure Gordon, after eight years as a Director of Corporate Finance at Hoare Govett and nine years in corporate finance at Charterhouse Japhet. He has an MBA and read Biology at Sussex University.

# CORPORATE GOVERNANCE STATEMENT

## Corporate governance

The Company is listed on the Alternative Investment Market ('AIM') and is not required to comply with the provisions of the UK Corporate Governance Code 2010 (2010 Code), as set out in the Financial Services Authority Listing Rules. However, the Directors recognise the importance of sound corporate governance and intend to comply with the Corporate Governance Guidelines, to the extent appropriate for a company of its nature and size. The Corporate Governance Guidelines were devised by the Quoted Company Alliance ('QCA'), in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. An alternative code was proposed because the QCA considers the 2010 Code to be inappropriate to many AIM companies. The Corporate Governance Guidelines state that: ''The purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term.''

The Board comprises two Non-Executive Directors (including the Chairman) and four Executive Directors. The Board meets regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, the Directors receive appropriate and timely information. Briefing papers are distributed to the Directors in advance of Board meetings. The Directors have access to the advice and services of the Company Secretary and the Chief Financial Officer, who are responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Board considers Peter George and Christopher Collins to be independent Directors.

## Board committees

The Company has Audit and Risk, Nomination, AIM Compliance and Remuneration Committees. The Audit and Risk Committee has Christopher Collins as Chairman, and has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Company is properly measured and reported on and reviewing reports from the Company's auditors relating to the Company's accounting and internal controls, in all cases having due regard to the interests of shareholders. The Audit and Risk Committee meets at least twice a year. Peter George is the other member of the Audit and Risk Committee. The Nomination Committee identifies and nominates for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee meets at least twice a year. Rolf Stahel was Chairman of the Nomination Committee until 31 March 2017 and was succeeded as Chairman by Peter George. Miroslav Reljanovic, Christopher Collins, and, until 16 April 2017, Neil Clark are the other members of the Nomination Committee. The Remuneration Committee has Christopher Collins as Chairman, and reviews the performance of the Executive Directors and determine their terms and conditions of service, including their remuneration and the grant of options, having due regard to the interests of shareholders. The Remuneration Committee meets at least twice a year. Peter George, Stephen Stamp and, until 31 March 2017, Rolf Stahel are the other members of the Remuneration Committee.

The Company has established an AIM Compliance Committee to ensure that the Company is complying with the AIM Rules. In addition, the Committee assesses the Company's Corporate Governance obligations every year. The AIM Compliance Committee is chaired by Christopher Collins and its other member is Peter George.

The Directors understand the importance of complying with the AIM Rules relating to Directors' dealings and have established a share dealing code which is appropriate for an AIM listed company.

## Internal control and risk management

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

Through the Audit and Risk Committee, the Directors have reviewed the effectiveness of the internal controls. Since admission to AIM in July 2014, management is continuing to invest significant time in further developing the Group's internal control environment. The key features of the internal control system are described below:

- control procedures and environment – the Group has an organisational structure with clearly drawn lines of accountability and authority. Employees are required to follow well-defined internal procedures and policies appropriate to the business and their position within the business and management promotes the highest levels of professionalism and ethical standards;
- identification and evaluation of risks – the Group employs Executive Directors and senior management with the appropriate knowledge and experience required for a medical and scientific research group. Identification and evaluation of risk is a continuous process running in parallel with the significant organic growth of the Group;
- risk register – senior management works with the Audit and Risk Committee to identify key risks facing the Group, any mitigating controls and persons responsible for reviewing and managing such risks. The risk register is reviewed periodically and updated and reviewed by the Board no less than annually;
- financial information – the Group prepares detailed budgets and working capital forecasts annually. These are based upon the strategy of the Group and are approved by the Board. Detailed management accounts and working capital re-forecasts are reviewed at least quarterly for each Board meeting, with any variances from budget investigated thoroughly and a summary provided to the Board. Annual Reports, Preliminary Statements and Half-year Reports prepared by the Group are reviewed by the Audit and Risk Committee prior to approval by the Board;
- monitoring – the Board monitors the activities of the Group through the supply of reports from various areas of the business as contained in the Board papers. The Executive Committee performs a more detailed review, taking corrective action if required; and
- financial position and prospects memorandum – senior management works with the Audit and Risk Committee to produce a comprehensive review of risks and internal procedures to control financial reporting in compliance with ICAEW Technical Release TECH 14/14 CFF.

The Board, through the Audit and Risk Committee, reviews the effectiveness of the systems of internal control. Given the Group's relative small size, the Board does not consider it either necessary or practical at present to have its own internal audit function. The Board continues to monitor the requirement to have an internal audit function.

## Communication with shareholders

The Board attaches great importance to communication with both institutional and private shareholders. Regular communication is maintained with all shareholders through Company announcements, the Annual Report and Accounts, Preliminary Statements and Half-year Report. The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders, especially considering the long term nature of the business. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and to give feedback regularly throughout the year. With private shareholders this is not always practical. The Board, therefore, intends to use the Company's Annual General Meeting as the opportunity to meet private shareholders who are encouraged to attend, after which the Chief Executive Officer will give a presentation on the activities of the Group. Following the presentation there will be an opportunity to ask questions of Directors on a formal and informal basis and to discuss the development of the business.

The Company operates a website at www.ergomedplc.com. The website contains details of the Group and its activities, regulatory announcements and Company announcements, Annual Reports and Half-year Reports, and the Terms of Reference of the Audit and Risk Committee and of the Remuneration Committee.

## Going concern

As disclosed in note 1 to the consolidated financial statements, having made relevant and appropriate enquiries, including consideration of the Company and Group current resources and working capital forecasts, the Directors have a reasonable expectation that, at the time of approving the financial statements, the Company has adequate resources to continue in operational existence for at least the next 12 months. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

# DIRECTORS' REMUNERATION REPORT (UNAUDITED)

Ergomed has elected voluntarily to prepare an unaudited Directors' remuneration report as set out below.

## Remuneration policy overview

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

The policy is designed to offer rewards that:

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

Remuneration levels are benchmarked against a subset of companies in the UK life sciences and biotechnology sectors with the aim of achieving the following:

- Base salary between average and upper quartile.
- Performance-based bonus between average and upper quartile.
- Share incentives industry average.
- Total compensation between average and upper quartile.

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

## Executive Directors

Miroslav Reljanovic has a letter of appointment with Ergomed plc dated 14 July 2014, with continuous employment from 28 September 2009. His appointment is terminable on six months' notice by himself and 12 months by the Company.

Neil Clark had a service agreement with Ergomed plc dated 14 July 2014, with continuous employment from January 2009. Neil Clark resigned as a Director with effect from 16 April 2017. He remains a non-executive director of PrimeVigilance Limited, a subsidiary of Ergomed plc.

Andrew Mackie has a service agreement with Ergomed plc dated 1 July 2015. His appointment is terminable on six months' notice by himself and 12 months by the Company.

Jan Petracek entered into a letter of appointment with Ergomed plc dated 14 December 2017. His appointment is terminable on three months' notice by himself and three months by the Company.

Stephen Stamp has a service agreement with Ergomed plc dated 11 January 2016. His appointment is terminable on six months' notice by himself and six months by the Company.

Dan Weng entered in to a letter of appointment with Ergomed plc dated 15 June 2017. Dan Weng resigned as a Director with effect from 14 December 2017.

## Non-Executive Directors

The Non-Executive Directors have entered into letters of appointment with the Company, with the Board determining any fees paid.

Peter George's fees as a Non-Executive Director were increased to £120,000 per annum when he was elected Chairman with effect from 1 April 2017.

The Non-Executive Directors do not participate in the Group's pension, bonus or option schemes. The Non-Executive appointments are terminable on one month's notice by either party.

## Remuneration

The Executive Directors during the year, Miroslav Reljanovic, Neil Clark, Andrew Mackie, Jan Petracek, Stephen Stamp and Dan Weng were entitled to receive base salary, travel allowance, employer pension contributions, share options and a discretionary performance-related bonus.

## Salary

Base salaries are generally reviewed annually and effective from the beginning of January. The Remuneration Committee seeks to assess the market competitiveness of pay primarily in terms of total remuneration, with less emphasis on base salary.

Stephen Stamp's salary was increased from £175,000 per annum to £200,000 per annum with effect from 1 July 2016.

## Bonuses

The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and contribution to the Group. The maximum bonus that can be earned by an Executive Director is 75% of base salary.

## Pensions

The Group does not operate a Group pension scheme. The Group pays an employer pension contribution of 10% of base salary to personal pension schemes established by the Executive Directors.

### *Directors' remuneration*

The Directors received the following remuneration during the year:

| Name of Director | **Fees & salary £000s** | **Benefits £000s** | **Annual bonus £000s** | **Pension £000s** | **Severance payment £000s** | **Total 2017 £000s** |
|---|---|---|---|---|---|---|
| Peter George[1] | **100** | **–** | **–** | **–** | **–** | **100** |
| Stephen Stamp[2] | **200** | **5** | **–** | **20** | **–** | **225** |
| Miroslav Reljanovic[7] | **240** | **3** | **–** | **–** | **–** | **243** |
| Andrew Mackie[2] | **200** | **5** | **–** | **20** | **–** | **225** |
| Jan Petracek[3] | **8** | **–** | **–** | **–** | **–** | **8** |
| Dan Weng[2,4] | **126** | **13** | **–** | **3** | **134** | **276** |
| Chris Collins | **40** | **–** | **–** | **–** | **–** | **40** |
| Neil Clark[2,5] | **52** | **–** | **–** | **3** | **–** | **55** |
| Rolf Stahel[6] | **25** | **–** | **–** | **–** | **–** | **25** |

| Name of Director | Fees & salary £000s | Benefits £000s | Annual bonus £000s | Pension £000s | Severance payment £000s | Total 2016 £000s |
|---|---|---|---|---|---|---|
| Peter George | 40 | – | – | – | – | 40 |
| Stephen Stamp | 183 | – | – | 18 | – | 201 |
| Miroslav Reljanovic | 242 | – | – | – | – | 242 |
| Andrew Mackie[2] | 200 | 1 | – | 20 | – | 221 |
| Chris Collins | 40 | – | – | – | – | 40 |
| Neil Clark[2] | 200 | 4 | – | 20 | – | 224 |
| Rolf Stahel[6] | 102 | – | – | – | – | 102 |

1. Peter George's Board fees were increased from £40,000 pa to £120,000 pa upon becoming Chairman with effect from 1 April 2017.
2. Stephen Stamp, Andrew Mackie, Dan Weng and Neil Clark received private medical insurance as a benefit during the year.
3. Jan Petracek was appointed a Director with effect from 14 December 2017.
4. Dan Weng was appointed a Director with effect from 1 July 2017 and resigned as a Director with effect from 14 December 2017.
5. Neil Clark resigned as a Director with effect from 16 April 2017.
6. Rolf Stahel's remuneration includes consultancy fees of £15,000 paid to Chesyl Pharma Limited (2016: £52,000). Mr Stahel retired as a Director with effect from 31 March 2017.
7. Miroslav Reljanovic has the occasional use of a Company-owned vehicle.

The amount payable to the highest paid Director in respect of emoluments was £276,000 (2016: £nil), comprising basic salary of £126,000, healthcare benefits of £13,000, pension contributions of £3,000 and severance payment of £134,000.

## Share options

The Company issues share options to the Directors and employees to reward performance, to encourage loyalty and to enable valued employees to share in the success of the Company.

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

Prior to the IPO Ergomed had established an Unapproved Executive Share Option 2007 Scheme and the Rolf Stahel Option Agreement. A new share option scheme, the 'Ergomed plc Long Term Incentive Plan', was established immediately following the Company's IPO in July 2014.

Ergomed has established three share option schemes:
i) the Unapproved Executive Share Option Scheme 2007;
ii) the Stahel Option Agreement; and
iii) the Ergomed plc Long Term Incentive Plan.

In addition, Neil Clark, Andrew Mackie and Stephen Stamp hold options over shares held by Miroslav Reljanovic.

### *Options granted as at 31 December 2017*

| Name of Director | Date of grant | Number of Ordinary Shares under option | Exercise price per Ordinary Share | Exercise period from | Exercise period to | Name of scheme |
|---|---|---|---|---|---|---|
| **Options over new Ergomed shares:** | | | | | | |
| Rolf Stahel | 18/4/2014 | 1,260,000 | £1.60 | 18/04/2014 | 17/04/2024 | Stahel Option Agreement |
| Neil Clark | 31/12/2009 | 1,000,000 | £0.01 | 31/12/2009 | 30/12/2019 | Unapproved Share Option Scheme 2007 |
| | 24/12/2015 | 150,000 | £1.69 | 03/06/2018 | 23/12/2025 | Ergomed plc Long Term Incentive Plan |
| Andrew Mackie | 24/12/2015 | 125,000 | £1.69 | 03/06/2018 | 23/12/2025 | Ergomed plc Long Term Incentive Plan |
| Jan Petracek | 12/04/2017 | 50,000 | £0.01 | 11/04/2020 | 11/04/2027 | Ergomed plc Long Term Incentive Plan |
| | 12/04/2017 | 25,000 | £0.01 | 01/01/2018 | 11/04/2027 | |
| Stephen Stamp | 11/01/2016 | 400,000 | £0.01 | 10/01/2019 | 10/01/2026 | Ergomed plc Long Term Incentive Plan |
| **Options over Ergomed shares owned by Miroslav Reljanovic:** | | | | | | |
| Neil Clark | 20/07/2015 | 88,235 | £0.01 | 20/07/2015 | 19/07/2025 | N/A |
| | 20/07/2015 | 88,235 | £0.01 | 20/07/2016 | 19/07/2025 | N/A |
| Andrew Mackie | 20/07/2015 | 88,235 | £0.01 | 20/07/2015 | 19/07/2025 | N/A |
| | 20/07/2015 | 88,235 | £0.01 | 20/07/2016 | 19/07/2025 | N/A |
| Stephen Stamp | 30/11/2016 | 50,000 | £0.01 | 11/01/2017 | 29/11/2026 | N/A |
| | 30/11/2016 | 50,000 | £0.01 | 11/01/2018 | 29/11/2026 | N/A |

The 25,000 options granted to Jan Petracek on 12 April 2017 lapsed on 31 December 2017. No other options held by the Directors were exercised or lapsed during the year.

This report was approved by the Board of Directors on 14 May 2018 and signed on its behalf by

**Christopher I Collins**
Director, Chairman of the Remuneration Committee

# DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report and financial statements for the Company and Group for the year ended 31 December 2017.

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

## Business review and key performance indicators
The Group's results are set out in the Consolidated income statement on page 38 and are explained in the Financial review on pages 18 and 19. A detailed review of the business, its results and future direction is included in the Chief Executive Officer's review on pages 12 and 13.

## Capital structure
The Group is primarily financed through equity provided by its shareholders and net cash generated from operations.

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

## Directors
The Directors of the Company who served during the year and to the date of this report unless stated are as follows:
Peter George
Stephen Stamp
Miroslav Reljanovic
Andrew Mackie
Jan Petracek (appointed 14 December 2017)
Dan Weng (appointed 1 July 2017, resigned 14 December 2017)
Christopher Collins
Neil Clark (resigned 16 April 2017)
Rolf Stahel (resigned 31 March 2017)

At 31 December 2017, the Directors had the following beneficial interests in the Company's shares:

| | Number of shares | Percentage of total issued share capital |
|---|---|---|
| Peter George | 276,250 | 0.6% |
| Stephen Stamp | 200,000 | 0.5% |
| Miroslav Reljanovic | 17,632,237 | 41.3% |
| Andrew Mackie | – | – |
| Jan Petracek | 320,288 | 0.8% |
| Christopher Collins | 31,250 | 0.1% |

Biographical details of the Directors are set out on pages 22 and 23.

## Directors' interests
The interests of Directors in the shares and options of the Company are set out above and in the Directors' remuneration report on pages 26 to 28.

None of the Directors had a material interest at any time during the year in any contract of significance with the Group other than a service contract or an arm's length commercial contract. See note 37 for all related party transactions. Information regarding Directors' service contracts is given on page 26 within the Directors' remuneration report.

## Share capital
As at 31 December 2017, the issued share capital of the Company was:

– Number of ordinary shares of £0.01 each ('Ordinary Shares') issued and fully paid up – 42,680,813 (2016: 40,504,806).

The closing market price of the Company's Ordinary Shares at close of business on 29 December 2017, the last trading day of the year, was 183.5 pence.

The maximum share price during the period from 1 January 2017 through 31 December 2017, was 216.5 pence and the minimum price was 165.5 pence per share.

## Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP have 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.

## Subsequent events

Subsequent events are described in note 40.

## 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 Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and have elected under company law to prepare the Company financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with applicable IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 includes a fair view of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board of Directors and signed on behalf of the Board.

**Sanja Jurić**
Company Secretary
14 May 2018

# INDEPENDENT AUDITOR'S REPORT
## TO THE MEMBERS OF ERGOMED PLC

### Report on the audit of the financial statements

#### *Opinion*

**In our opinion:**

- **the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Ergomed plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 39.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### *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 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.

#### *Summary of our audit approach*

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• Haemostatix goodwill impairment review<br>• Revenue recognition: CRO service contracts<br>• Acquisition accounting<br>• Haemostatix contingent consideration |
| **Materiality** | The materiality that we used for the Group financial statements was £595,300 which was determined on the basis of 1.25% of revenue for the year. |
| **Scoping** | Full scope audit procedures have been performed on four components and represent 89% of Group revenue. Six components were subject to an audit of specified balances in order to achieve sufficient coverage of the Group's absolute profit before tax and net assets. The remaining Group entities were subject to analytical procedures. |

#### *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 twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

***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.

| ***Haemostatix goodwill impairment review*** | |
|---|---|
| **Key audit matter description**  | The Group recognised goodwill of £2,143k and intangible assets of £15,200k from the acquisition of Haemostatix Ltd in 2016. Given that the clinical trials of Peprostat and ReadyFlow are still ongoing, significant assumptions, judgements and estimates are required to be made by management in order to calculate the expected value in use of Haemostatix. Following the profit warning announced on 5 March 2018, there is an increased risk of current year forecasts being inaccurate, also increasing the risk that indicators of impairment exist.<br><br>Under IAS 36 an impairment review is required to be completed annually and/or whenever there is an indication that the unit, or Group of units, may be impaired. In preparing the cash flow forecasts, management judgement is involved in the determination of the discount rate, terminal growth rate, the timing of drugs coming to market, and forecast cash flows for each cash generating unit ('CGU').<br><br>Further details are included within the critical accounting judgements in note 2 and note 14 to the financial statements. |
| **How the scope of our audit responded to the key audit matter**  | We have assessed whether the CGU's identified are appropriately disaggregated and whether the assets included in the impairment model are complete by reconciling the assets to the consolidation and considering the disaggregation in line with the requirement of IAS 36. We have further evaluated the existence and accuracy of the CGU assets by tracing them to supporting evidence.<br><br>We have challenged the cash flow forecasts by referencing to historical performance and external market data, and an assessment of the Group's future strategy and budgets.<br><br>We performed sensitivity analysis around the key variables within the Goodwill impairment model (such as when development costs are incurred, when Peprostat and ReadyFlow come to market, and when expected peak sales are reached) to evaluate whether a reasonable change would trigger an impairment. |
| **Key observations**  | We are satisfied that there is no impairment required for the goodwill balance allocated to Haemostatix. |

| *Revenue recognition: Open CRO service contracts* | |
|---|---|
| **Key audit matter description**  | There is a risk that revenue from Clinical Research contracts (see note 4 for segmental CRO revenues) has not been appropriately recognised in line with the percentage completed, as required by IAS 18: *Revenue*. The percentage completed is an estimate based on management's judgements surrounding the costs incurred to date and the costs left to complete the contract. The risk is that revenue is recognised on the basis of units completed, which may not be indicative of the percentage of the contract that is actually complete.<br><br>IAS 18, para 20 states that *"when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period"*.<br><br>Further details are included within the critical accounting judgements in note 2 to the financial statements. |
| **How the scope of our audit responded to the key audit matter**  | We have selected a sample of key revenue generating contracts during the year for testing. For these contracts we have obtained the relevant project tracker and reconciled the value of services provided to the value of revenue recognised within the financial statements.<br><br>We have traced a sample of services provided in the year within the sampled contracts to supporting evidence (such as external hospital data and timecards) to evaluate whether the project tracker accurately reflects the work performed by the Group.<br><br>We have enquired of project managers as to the status of the project, any on-going concerns, and the expected remaining duration of the project.<br><br>Considering all of the above we have assessed whether the revenue recognised by the Group is in line with evidence received and supports the percentage of completion that has occurred to date. |
| **Key observations**  | We concluded that the Group has recognised revenue on service contracts at an appropriate percentage completion rate. |

| *Acquisition accounting* | |
|---|---|
| **Key audit matter description**  | Significant judgement is required in respect of the purchase price allocation process on the acquisition of PSR Group BV (note 34). The acquisition was completed for a total consideration of €4.1m, with €2.9m paid as initial consideration and the balance as deferred consideration. Intangible assets valued at €0.7m and goodwill valued at €2.9m were recognised as a result of the acquisition. The identification of intangible assets, related deferred tax charges, and fair valuation of the goodwill acquired and related assumptions (such as the weighted average cost of capital and growth rates used) is a key area of focus due to the judgemental nature of the assumptions used by management.<br><br>Further details are included within the critical accounting judgements in note 2 to the financial statements. |
| **How the scope of our audit responded to the key audit matter**  | For the acquisition of PSR Group BV we have obtained the share purchase agreement ('SPA'), as well as a management valuation paper detailing the purchase price consideration, contingent consideration, financing, and the allocation of intangible assets and goodwill.<br><br>We have further assessed the purchase price allocation of goodwill and acquisition intangible assets by reviewing acquisition models and forecasts, engaging a Deloitte valuation specialist to support where appropriate. We also reviewed management's models for mathematical accuracy, challenged the reasonableness of the assumptions made, including the appropriateness of the forecasts, and agreed consideration paid in the year to supporting evidence. |
| **Key observations**  | Based on work performed we consider the valuation and allocation of goodwill, acquisition intangibles, purchase price consideration, and contingent consideration to be appropriate for the acquisition of PSR Group BV in the period. |

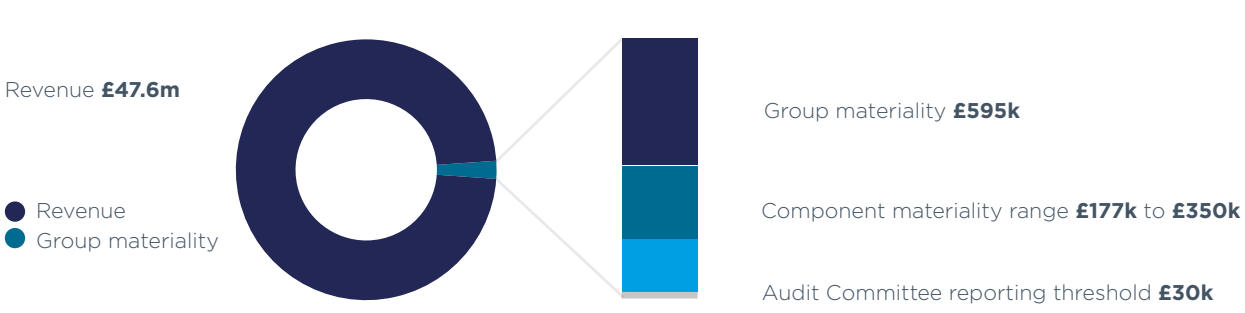
| *Haemostatix contingent consideration* | |
|---|---|
| **Key audit matter description** | Contingent consideration is required to be fair valued at each period end, with the fair value being calculated based on management's forecasts. A maximum value of £20m is payable as contingent consideration as part of the acquisition of Haemostatix and, as such, any inaccuracies in the forecasts could have a significant impact on the fair value of contingent consideration. Following the profit warning announced on 5 March 2018, there is an increased risk of current year forecasts being inaccurate, also increasing the risk that indicators of impairment exist.<br><br>Further details are included within the critical accounting judgements in note 2 and note 26 to the financial statements. |
| **How the scope of our audit responded to the key audit matter** | We have obtained management's updated fair value calculation for the Haemostatix contingent consideration, which include updated forecasts, and challenged the key assumptions and judgements made (i.e. the discount factor and the timing of when Peprostat and ReadyFlow come to market). Our internal valuations specialists were engaged to assist in reviewing and re-performing the fair value calculation.<br><br>Further to this, we have also checked the mathematical accuracy of the calculation, agreed whether the forecasts are consistent with those used within the goodwill impairment assessment, and agreed whether the accounting adjustments have been appropriately recognised in the financial statements. |
| **Key observations** | Our audit procedures concluded that an updated fair value calculation of the contingent consideration is appropriate as a result of progress of the clinical trials of Peprostat. |

### *Our application of 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** | £595,300 | £350,300 |
| **Basis for determining materiality** | We determined materiality based on 1.25% of revenue. | We determined materiality based on 1.40% of revenue. |
| **Rationale for the benchmark applied** | Revenue is considered the most appropriate benchmark as it is the key performance metric for users of the financial statements. | Revenue is considered the most appropriate benchmark as it is the key performance metric for users of the financial statements. |



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £30,000 for the Group and £18,000 for the parent company, 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.

***An overview of the scope of our audit***

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our audit scope on the UK, Croatian, and Czech trading entities. As such Ergomed plc, PrimeVigilance Limited, Haemostatix Limited, and European PharmInvent Services were subject to a full audit. The six additional components for which specified procedures were performed were chosen in order to provide sufficient coverage over the Group's key financial statement lines. These components were selected for being the next most significant to the Group, in terms of financial performance, risk and geographical location. Our audit work at the entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged between £177k and £350k.

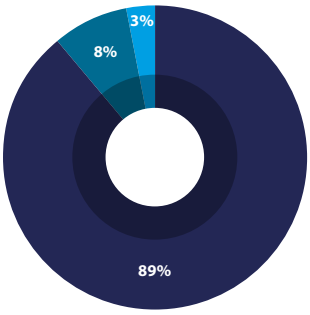
We have engaged Deloitte Czech Republic as component auditors for the year ended 31 December 2017 to report on European PharmInvent Services s.r.o.

The locations subject to full scope audit procedures represent the principal business units and account for 89% of the Group's revenue for the year ended 31 December 2017. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

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

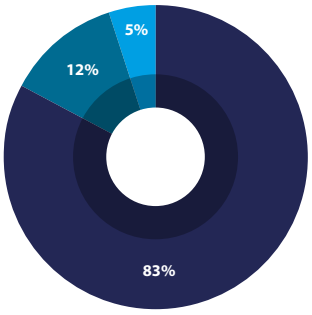
The parent company is located in Guildford, UK, but operated out of Zagreb, Croatia during 2017. The parent company has been audited directly by the Group audit team.

**Revenue**



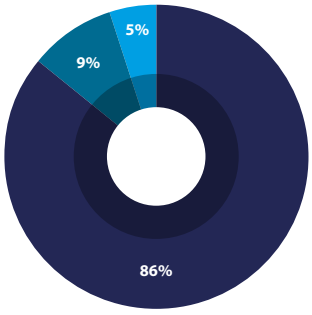

- Full audit scope
- Specified audit procedures
- Review at group level

**Absolute profit before tax**




- Full audit scope
- Specified audit procedures
- Review at group level

**Net assets**




- Full audit scope
- Specified audit procedures
- Review at group level

### *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 auditor's 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 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.**

### *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.

### *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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### *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.

### *Report on other legal and regulatory requirements*

#### 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 or 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.

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

| | |
|---|---|
| ***Adequacy of explanations received and accounting records***<br>Under the Companies Act 2006 we are required to report to you if, in our opinion:<br>• we have not received all the information and explanations we require for our audit; or<br>• 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<br>• 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.** |
| ***Directors' remuneration***<br>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.** |

**Matthew Hall**
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
14 May 2018

# CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|---|
| Net service revenue | | **39,645** | 29,224 |
| Licence revenue | | **370** | – |
| Reimbursement revenue | | **7,609** | 10,009 |
| **Revenue** | 3, 4 | **47,624** | 39,233 |
| Cost of sales | | **(25,394)** | (17,230) |
| Reimbursable expenses | | **(7,609)** | (10,009) |
| **Gross profit** | | **14,621** | 11,994 |
| Administrative expenses | | **(15,954)** | (10,822) |
| Administrative expenses comprises: | | | |
| Other administrative expenses | | **(9,725)** | (8,323) |
| Amortisation of acquired fair valued intangible assets | 16 | **(1,167)** | (771) |
| Share-based payment charge | 31 | **(1,033)** | (877) |
| Deferred consideration for acquisitions expense | 7 | **(752)** | (550) |
| Revaluation of deferred consideration for acquisition | | **(2,875)** | – |
| Write-back of deferred consideration for acquisition | | **–** | 460 |
| Acquisition costs | 8 | **(259)** | (584) |
| Exceptional items | 9 | **(143)** | (177) |
| Research and development | | **(2,689)** | (1,250) |
| Other operating income | | **118** | 127 |
| **Operating (loss)/profit** | | **(3,904)** | 49 |
| Investment revenues | 10 | **3** | 2 |
| Finance costs | 11 | **(546)** | (274) |
| **Loss before taxation** | | **(4,447)** | (223) |
| Taxation | 13 | **(57)** | 153 |
| **Loss for the year** | 5 | **(4,504)** | (70) |
| **Loss per share** | | | |
| Basic | 14 | **(11.0)p** | (0.2)p |
| Diluted | 14 | **(11.0)p** | (0.2)p |

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

The notes on pages 46 to 90 form an integral part of these financial statements.

The re-statement of the income statement for 2016 is explained in note 1.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|
| **Loss for the year** | **(4,504)** | (70) |
| **Items that may be classified subsequently to profit or loss:** Exchange differences on translation of foreign operations | **619** | 680 |
| **Other comprehensive income for the year net of tax** | **619** | 680 |
| **Total comprehensive (loss)/income for the year** | **(3,885)** | 610 |

# CONSOLIDATED BALANCE SHEET
## AS AT 31 DECEMBER 2017

| | Notes | 2017 £000s | 2016 Re-stated £000s | 2015 Re-stated £000s |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 15 | **15,269** | 12,285 | 7,488 |
| Other intangible assets | 16 | **20,229** | 19,842 | 2,819 |
| Property, plant and equipment | 17 | **1,078** | 717 | 335 |
| Investments | 19 | **754** | 271 | 183 |
| Deferred tax asset | 20 | **1,613** | 1,448 | 365 |
| | | **38,943** | 34,563 | 11,190 |
| **Current assets** | | | | |
| Trade and other receivables | 21 | **19,250** | 14,958 | 9,528 |
| Other current assets | 22 | **502** | 240 | – |
| Cash and cash equivalents | 23 | **3,218** | 4,424 | 3,974 |
| | | **22,970** | 19,622 | 13,502 |
| **Total assets** | | **61,913** | 54,185 | 24,692 |
| **Current liabilities** | | | | |
| Borrowings | 24 | **(12)** | (3) | (5) |
| Trade and other payables | 25 | **(10,717)** | (7,077) | (5,955) |
| Deferred consideration | 26 | **(1,957)** | – | – |
| Deferred revenue | | **(976)** | (1,393) | (795) |
| Current tax liability | | **(201)** | (119) | (478) |
| **Total current liabilities** | | **(13,863)** | (8,592) | (7,233) |
| **Net current assets** | | **9,107** | 11,030 | 6,269 |
| **Non-current liabilities** | | | | |
| Borrowings | 24 | **(6)** | (5) | (7) |
| Deferred consideration | 26 | **(9,804)** | (7,772) | – |
| Deferred tax liability | 20 | **(3,397)** | (3,418) | (516) |
| **Total liabilities** | | **(27,070)** | (19,787) | (7,756) |
| **Net assets** | | **34,843** | 34,898 | 16,936 |
| **Equity** | | | | |
| Share capital | 27 | **428** | 406 | 288 |
| Share premium account | 28 | **20,616** | 17,957 | 9,361 |
| Merger reserve | 29 | **11,008** | 10,264 | 2,981 |
| Share-based payment reserve | 30 | **2,674** | 1,829 | 1,092 |
| Translation reserve | 30 | **762** | 143 | (537) |
| Retained earnings | | **(645)** | 3,799 | 3,751 |
| **Total equity** | | **34,843** | 34,398 | 16,936 |

The notes on pages 46 to 90 form an integral part of these financial statements.

The re-statement of the balance sheets for 2016 and 2015 are explained in note 1.

Approved by the Board of Directors and authorised for issue on 14 May 2018.

**S A Stamp**
Director

Company Registration No. 04081094

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share capital £000s | Share premium account £000s | Merger reserve £000s | Share-based payment reserve £000s | Translation reserve £000s | Retained earnings £000s | Total £000s |
|---|---|---|---|---|---|---|---|
| Balance at 31 December 2015 | 288 | 9,361 | 2,981 | 650 | (537) | 4,193 | 16,936 |
| Prior period adjustment (note 1) | – | – | – | 442 | – | (442) | – |
| Balance at 31 December 2015 (re-stated) | 288 | 9,361 | 2,981 | 1,092 | (537) | 3,751 | 16,936 |
| Loss for the year (re-stated) | – | – | – | – | – | (70) | (70) |
| Other comprehensive income for the year | – | – | – | – | 680 | – | 680 |
| Total comprehensive income for the year | – | – | – | – | 680 | (70) | 610 |
| Share issue during the year for cash (net of expenses) | 66 | 8,596 | – | – | – | – | 8,662 |
| Share issues during the year for non-cash consideration | 51 | – | 7,144 | – | – | – | 7,195 |
| Contingent share issue for non-cash consideration (re-stated) | 1 | – | 139 | (140) | – | – | – |
| Share-based payment charge for the year (re-stated) | – | – | – | 877 | – | – | 877 |
| Deferred tax credit taken directly to equity | – | – | – | – | – | 118 | 118 |
| Balance at 31 December 2016 (re-stated) | 406 | 17,957 | 10,264 | 1,829 | 143 | 3,799 | 34,398 |
| Loss for the year | – | – | – | – | – | (4,504) | (4,504) |
| Other comprehensive income for the year | – | – | – | – | 619 | – | 619 |
| Total comprehensive income for the year | – | – | – | – | 619 | (4,504) | (3,885) |
| Share issue during the year for cash (net of expenses) | 18 | 2,659 | – | – | – | – | 2,677 |
| Share issues during the year for non-cash consideration | 3 | – | 555 | – | – | – | 558 |
| Contingent share issue for non-cash consideration | 1 | – | 189 | (188) | – | – | 2 |
| Share-based payment charge for the year | – | – | – | 1,033 | – | – | 1,033 |
| Deferred tax credit taken directly to equity | – | – | – | – | – | 60 | 60 |
| **Balance at 31 December 2017** | **428** | **20,616** | **11,008** | **2,674** | **762** | **(645)** | **34,843** |

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(4,447)** | (223) |
| **Adjustment for:** | | | |
| Amortisation and depreciation | | **1,626** | 1,027 |
| Gain on disposal of fixed assets | | **(7)** | (2) |
| Share-based payment charge | | **1,033** | 877 |
| Acquisition of shares for non-cash consideration | | **(462)** | (54) |
| Exchange adjustments | | **(44)** | 419 |
| Acquisition costs | | **218** | 586 |
| Revaluation of deferred consideration for acquisition | | **2,875** | – |
| Write-back of deferred consideration for acquisition | | **–** | (415) |
| Investment revenues | | **(3)** | (2) |
| Finance costs | | **546** | 274 |
| **Operating cash flow before changes in working capital and provisions** | | **1,335** | 2,487 |
| Increase in trade and other receivables | | **(3,445)** | (3,667) |
| Increase in other current assets | | **(262)** | (195) |
| Increase/(decrease) in trade and other payables | | **2,753** | (58) |
| **Cash generated from/(utilised by) operations** | | **381** | (1,433) |
| Taxation paid | | **(355)** | (941) |
| **Net cash inflow/(outflow) from operating activities** | | **26** | (2,374) |
| **Investing activities** | | | |
| Investment revenues received | | **3** | 2 |
| Acquisition of intangible assets | | **(704)** | (705) |
| Acquisition of property, plant and equipment | | **(721)** | (404) |
| Acquisition of subsidiaries, net of cash acquired | | **(1,946)** | (4,755) |
| Acquisition related earn-out paid | | **(559)** | – |
| Receipts from sale of property, plant and equipment | | **11** | 31 |
| **Net cash outflow from investing activities** | | **(3,916)** | (5,831) |
| **Financing activities** | | | |
| Issue of new shares | | **2,900** | 9,185 |
| Expenses of fundraising | | **(224)** | (523) |
| Finance costs paid | | **(2)** | (2) |
| Increase in borrowings | | **20** | – |
| Repayment of borrowings | | **(10)** | (5) |
| **Net cash inflow from financing activities** | | **2,684** | 8,655 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,206)** | 450 |
| Cash and cash equivalents at start of the year | | **4,424** | 3,974 |
| **Cash and cash equivalents at end of year** | 23 | **3,218** | 4,424 |

The re-statement of the cash flow statement for 2016 is explained in note 1.

# COMPANY BALANCE SHEET
## AS AT 31 DECEMBER 2017

| | Note | 2017 £000s | 2016 Re-stated £000s | 2015 Re-stated £000s |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 16 | **436** | 153 | 4 |
| Property, plant and equipment | 17 | **96** | 24 | 8 |
| Investments | 19 | **39,618** | 34,082 | 10,557 |
| Deferred tax asset | 20 | **678** | 457 | 342 |
| | | **40,828** | 34,716 | 10,911 |
| **Current assets** | | | | |
| Trade and other receivables | 21 | **15,902** | 11,808 | 6,824 |
| Cash and cash equivalents | 23 | **288** | 930 | 1,407 |
| | | **16,190** | 12,738 | 8,231 |
| **Total assets** | | **57,018** | 47,454 | 19,142 |
| **Current liabilities** | | | | |
| Trade and other payables | 25 | **(12,074)** | (7,524) | (5,945) |
| Deferred consideration | 26 | **(1,957)** | – | – |
| Deferred revenue | | **(855)** | (1,260) | (773) |
| **Total current liabilities** | | **(14,886)** | (8,784) | (6,718) |
| **Net current assets** | | **1,304** | 3,954 | 1,513 |
| **Non-current liabilities** | | | | |
| Deferred consideration | 26 | **(9,804)** | (7,772) | – |
| Deferred tax liability | 20 | **(12)** | (5) | (2) |
| **Total liabilities** | | **(24,702)** | (16,561) | (6,720) |
| **Net assets** | | **32,316** | 30,893 | 12,422 |
| **Equity** | | | | |
| Share capital | 27 | **428** | 406 | 288 |
| Share premium account | 28 | **20,616** | 17,957 | 9,361 |
| Merger reserve | 29 | **11,008** | 10,264 | 2,981 |
| Share-based payment reserve | 30 | **2,674** | 1,829 | 1,092 |
| Translation reserve | 30 | **3,693** | 2,550 | (1,046) |
| Retained earnings | | **(6,103)** | (2,113) | (254) |
| **Total equity** | | **32,316** | 30,893 | 12,422 |

The notes on pages 46 to 90 form an integral part of these financial statements.

The re-statement of the balance sheets for 2015 and 2016 are explained in note 1.

As permitted by Section 408 of the Companies Act 2006 the Income statement and Statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss after tax for the financial year was £4,050,000 (2016: £1,977,000).

Approved by the Board of Directors and authorised for issue on 14 May 2018.

**S A Stamp**
Director

Company Registration No. 04081094

# COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share capital £000s | Share premium account £000s | Merger reserve £000s | Share-based payment reserve £000s | Translation reserve £000s | Retained earnings £000s | Total £000s |
|---|---|---|---|---|---|---|---|
| Balance at 31 December 2015 | 288 | 9,361 | 2,981 | 650 | (1,046) | 188 | 12,422 |
| Prior period adjustment (note 1) | – | – | – | 442 | – | (442) | – |
| Balance at 31 December 2015 (re-stated) | 288 | 9,361 | 2,981 | 1,092 | (1,046) | (254) | 12,422 |
| Loss for the year (re-stated) | – | – | – | – | – | (1,977) | (1,977) |
| Other comprehensive income for the year | – | – | – | – | 3,596 | – | 3,596 |
| Total comprehensive income for the year | – | – | – | – | 3,596 | (1,977) | 1,619 |
| Share issue for cash (net of expenses) during the year | 66 | 8,596 | – | – | – | – | 8,662 |
| Share issues for non-cash consideration during the year | 51 | – | 7,144 | – | – | – | 7,195 |
| Contingent share issue for non-cash consideration (re-stated) | 1 | – | 139 | (140) | – | – | – |
| Share-based payment charge for the year (re-stated) | – | – | – | 877 | – | – | 877 |
| Deferred tax credit taken directly to equity | – | – | – | – | – | 118 | 118 |
| Balance at 31 December 2016 (re-stated) | 406 | 17,957 | 10,264 | 1,829 | 2,550 | (2,113) | 30,893 |
| Loss for the year | – | – | – | – | – | (4,050) | (4,050) |
| Other comprehensive income for the year | – | – | – | – | 1,143 | – | 1,143 |
| Total comprehensive income for the year | – | – | – | – | 1,143 | (4,050) | (2,907) |
| Share issue for cash (net of expenses) during the year | 18 | 2,659 | – | – | – | – | 2,677 |
| Share issues for non-cash consideration during the year | 3 | – | 555 | – | – | – | 558 |
| Contingent share issue for non-cash consideration | 1 | – | 189 | (188) | – | – | 2 |
| Share-based payment charge for the year | – | – | – | 1,033 | – | – | 1,033 |
| Deferred tax credit taken directly to equity | – | – | – | – | – | 60 | 60 |
| **Balance at 31 December 2017** | **428** | **20,616** | **11,008** | **2,674** | **3,693** | **(6,103)** | **32,316** |

# COMPANY CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(4,183)** | (1,920) |
| **Adjustment for:** | | | |
| Amortisation and depreciation | | **33** | 21 |
| Share-based payment (credit)/charge | | **(106)** | 877 |
| Exchange adjustments | | **(186)** | 118 |
| Acquisition of shares for non-cash consideration | | **(462)** | (54) |
| Revaluation of deferred consideration | | **2,875** | – |
| Write-back of deferred consideration | | **–** | (415) |
| Acquisition costs | | **218** | 586 |
| Investment revenues | | **(3)** | (1) |
| Finance costs | | **581** | 273 |
| **Operating cash flow before changes in working capital and provisions** | | **(1,233)** | (515) |
| Increase in trade and other receivables | | **(4,299)** | (4,938) |
| Increase in trade and other payables | | **5,608** | 2,066 |
| **Cash generated by/(utilised by) operations** | | **76** | (3,387) |
| Taxation received | | **299** | – |
| **Net cash inflow/(outflow) from operating activities** | | **375** | (3,387) |
| **Investing activities** | | | |
| Investment revenues | | **3** | – |
| Acquisition of intangible assets | | **(278)** | (150) |
| Acquisition of property, plant and equipment | | **(100)** | (34) |
| Acquisition of subsidiaries | | **(2,759)** | (5,568) |
| Acquisition related earn-out paid | | **(559)** | – |
| **Net cash outflow from investing activities** | | **(3,693)** | (5,752) |
| **Financing activities** | | | |
| Issue of new shares | | **2,900** | 9,185 |
| Expenses of fundraising | | **(224)** | (523) |
| **Net cash inflow from financing activities** | | **2,676** | 8,662 |
| **Net decrease in cash and cash equivalents** | | **(642)** | (477) |
| Cash and cash equivalents at start of the year | | **930** | 1,407 |
| **Cash and cash equivalents at end of year** | 23 | **288** | 930 |

The re-statement of the cash flow statement for 2016 is explained in note 1.

## 1. Accounting policies

### *Group*

Ergomed plc is a public company limited by shares. Its registered address is 26-28 Frederick Sanger Road, Surrey Research Park, Guildford, Surrey, GU2 7YD, UK. Ergomed plc and its wholly owned subsidiaries provide a full range of clinical trial planning, management and monitoring, as well as drug safety and medical information services. The Group has a worldwide presence with operations in the UK, Poland, Germany, Bosnia, Croatia, Serbia, The Netherlands, Czech Republic, Russia, Switzerland, Ukraine, Taiwan, the United Arab Emirates and the USA. Ergomed plc is a company incorporated and domiciled in the UK.

The Group financial statements were authorised for issue by the Board of Directors on 14 May 2018.

### *Basis of accounting*

#### Consolidated financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and the Companies Act 2006. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

### *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of the subsidiaries is attributed to the owners of the Company.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transitions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

### *Going concern*

The financial statements have been prepared on the going concern basis, which assumes that the Group will have sufficient funds to continue in operational existence for the foreseeable future, being a period of no less than 12 months from the date of signing of the financial statements. The Directors have reviewed a cash flow forecast (the 'Forecast') for the period ending 31 December 2019. The Forecast represents the Directors' best estimate of the Group's future performance and necessarily includes a number of assumptions, including the level of revenues, which are subject to inherent uncertainties. However, the Forecast demonstrates that the Directors have a reasonable expectation that the Group will be able to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of these financial statements.

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

### *Compliance with accounting standards*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |
| IFRS 11 (amendments) | Accounting for Acquisitions of Interests in Joint Operations |
| IAS 1 (amendments) | Disclosure Initiative |
| IAS 16 and IAS 38 (amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation |
| IAS 16 and IAS 41 (amendments) | Agriculture: Bearer Plants |
| IAS 27 (amendments) | Equity Method in Separate Financial Statements |
| IFRS 10 and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| IFRS 10, IFRS 12 and IAS 28 (amendments) | Investment Entities: Applying the Consolidation Exemption |
| Annual Improvements to IFRSs: 2012–2014 Cycle | Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting |

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments. IFRS 15 may have an impact on revenue recognition and related disclosures, and IFRS 16 will have an impact on the measurement and recognition of leases and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until a detailed review has been completed.

### *Re-statement of prior year income statement, balance sheet and cash flow statement*

Certain Directors, former Directors and the Company Secretary hold options over shares held by Dr Miroslav Reljanovic under agreements between those parties. The grant and vesting of such options was dependent on their continued employment by the Company. Although these options are not dilutive and the Company is not party to the arrangements, in accordance with IFRS 2, a share-based payment charge arises. No such charge was shown in the financial statements for the years ended 31 December 2015 and 31 December 2016.

In November 2016, the Company acquired European PharmInvent Services s.r.o. Deferred consideration payable to the vendors is dependent on their remaining employees of the group. The total amount payable to vendors for the year ended 31 December 2016 was charged to the income statement. However, a proportion of that deferred consideration is payable in equity. In accordance with IFRS 2, this proportion should be treated as a share-based payment.

In 2016, the raw material and manufacturing costs of clinical trial material to be used in clinical studies were capitalised and categorised as Clinical Trial Inventory. However, under IFRS, the raw material costs were not eligible for capitalisation. Therefore, a prior year adjustment has arisen and the remaining capitalised amount is categorised as 'Other current assets'.

## 1. Accounting policies continued

The impact on the Consolidated income statement, Consolidated balance sheet and Consolidated cash flow statement are set out below.

***Re-statement of prior year Consolidated income statement***

| | 2016 Previously reported £000s | Adjustment £000s | 2016 Re-stated £000s |
|---|---|---|---|
| Net service revenue | 29,224 | – | 29,224 |
| Reimbursement revenue | 10,009 | – | 10,009 |
| **Revenue** | 39,233 | – | 39,233 |
| Cost of sales | (17,230) | – | (17,230) |
| Reimbursable expenses | (10,009) | – | (10,009) |
| **Gross profit** | 11,994 | – | 11,994 |
| Administrative expenses | (10,483) | (339) | (10,822) |
| Administrative expenses comprises: | | | |
| Other administrative expenses | (8,323) | – | (8,323) |
| Amortisation of acquired fair valued intangible assets | (771) | – | (771) |
| Share-based payment charge | (398) | (479) | (877) |
| Deferred consideration for acquisition expense | (690) | 140 | (550) |
| Write-back of deferred consideration | 460 | – | 460 |
| Acquisition costs | (584) | – | (584) |
| Exceptional items | (177) | – | (177) |
| Research and development | (1,040) | (210) | (1,250) |
| Other operating income | 127 | – | 127 |
| **Operating profit** | 598 | (549) | 49 |
| Investment revenues | 2 | – | 2 |
| Finance costs | (274) | – | (274) |
| **Profit/(loss) before taxation** | 326 | (549) | (223) |
| Taxation | 153 | – | 153 |
| **Profit/(loss) for the year** | 479 | (549) | (70) |
| **Earnings/(loss) per share** | | | |
| Basic | 1.3p | | (0.2)p |
| Diluted | 1.3p | | (0.2)p |

### *Re-statement of prior year Consolidated balance sheet*

| | 2016 Previously reported £000s | Adjustment £000s | 2016 Re-stated £000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 12,285 | – | 12,285 |
| Other intangible assets | 19,842 | – | 19,842 |
| Property, plant and equipment | 717 | – | 717 |
| Investments | 271 | – | 271 |
| Deferred tax asset | 1,448 | – | 1,448 |
| | 34,563 | – | 34,563 |
| **Current assets** | | | |
| Trade and other receivables | 14,958 | – | 14,958 |
| Clinical trial inventory | 450 | (450) | – |
| Other current assets | – | 240 | 240 |
| Cash and cash equivalents | 4,424 | – | 4,424 |
| | 19,832 | (210) | 19,622 |
| **Total assets** | 54,395 | (210) | 54,185 |
| **Current liabilities** | | | |
| Borrowings | (3) | – | (3) |
| Trade and other payables | (7,077) | – | (7,077) |
| Deferred revenue | (1,393) | – | (1,393) |
| Current tax liability | (119) | – | (119) |
| **Total current liabilities** | (8,592) | – | (8,592) |
| **Net current assets** | 11,240 | (210) | 11,030 |
| **Non-current liabilities** | | | |
| Borrowings | (5) | – | (5) |
| Deferred consideration | (7,772) | – | (7,772) |
| Deferred tax liability | (3,418) | – | (3,418) |
| **Total liabilities** | (19,787) | – | (19,787) |
| **Net assets** | 34,608 | (210) | 34,398 |
| **Equity** | | | |
| Share capital | 406 | – | 406 |
| Share premium account | 17,957 | – | 17,957 |
| Merger reserve | 10,264 | – | 10,264 |
| Share-based payment reserve | 1,048 | 781 | 1,829 |
| Translation reserve | 143 | – | 143 |
| Retained earnings | 4,790 | (991) | 3,799 |
| **Total equity** | 34,608 | (210) | 34,398 |

## 1. Accounting policies continued

***Re-statement of 2015 Consolidated balance sheet***

| | 2015 Previously reported £000s | Adjustment £000s | 2015 Re-stated £000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 7,488 | – | 7,488 |
| Other intangible assets | 2,819 | – | 2,819 |
| Property, plant and equipment | 335 | – | 335 |
| Investments | 183 | – | 183 |
| Deferred tax asset | 365 | – | 365 |
| | 11,190 | – | 11,190 |
| **Current assets** | | | |
| Trade and other receivables | 9,528 | – | 9,528 |
| Cash and cash equivalents | 3,974 | – | 3,974 |
| | 13,502 | – | 13,502 |
| **Total assets** | 24,692 | – | 24,692 |
| **Current liabilities** | | | |
| Borrowings | (5) | – | (5) |
| Trade and other payables | (5,955) | – | (5,955) |
| Deferred revenue | (795) | – | (795) |
| Current tax liability | (478) | – | (478) |
| **Total current liabilities** | (7,233) | – | (7,233) |
| **Net current assets** | 6,269 | – | 6,269 |
| **Non-current liabilities** | | | |
| Borrowings | (7) | – | (7) |
| Deferred tax liability | (516) | – | (516) |
| **Total liabilities** | (7,756) | – | (7,756) |
| **Net assets** | 16,936 | – | 16,936 |
| **Equity** | | | |
| Share capital | 288 | – | 288 |
| Share premium account | 9,361 | – | 9,361 |
| Merger reserve | 2,981 | – | 2,981 |
| Share-based payment reserve | 650 | 442 | 1,092 |
| Translation reserve | (537) | – | (537) |
| Retained earnings | 4,193 | (442) | 3,751 |
| **Total equity** | 16,936 | – | 16,936 |

### *Re-statement of prior year Consolidated cash flow statement*

| | 2016 Previously reported £000s | Adjustment £000s | 2016 Re-stated £000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before taxation | 326 | (549) | (223) |
| **Adjustment for:** | | | |
| Amortisation and depreciation | 1,027 | – | 1,027 |
| Gain on disposal of fixed assets | (2) | – | (2) |
| Share-based payment charge | 398 | 479 | 877 |
| Acquisition of shares for non-cash consideration | (54) | – | (54) |
| Exchange adjustments | 419 | – | 419 |
| Acquisition costs and deferred consideration | 726 | (140) | 586 |
| Write-back of deferred consideration | (415) | – | (415) |
| Investment revenues | (2) | – | (2) |
| Finance costs | 274 | – | 274 |
| **Operating cash flow before changes in working capital and provisions** | 2,697 | (210) | 2,487 |
| Increase in trade and other receivables | (3,667) | – | (3,667) |
| Increase in inventory | (405) | 405 | – |
| Increase in other current assets | – | (195) | (195) |
| Decrease in trade and other payables | (58) | – | (58) |
| **Cash utilised by operations** | (1,433) | – | (1,433) |
| Taxation paid | (941) | – | (941) |
| **Net cash outflow from operating activities** | (2,374) | – | (2,374) |
| **Investing activities** | | | |
| Investment revenues received | 2 | – | 2 |
| Acquisition of intangible assets | (705) | – | (705) |
| Acquisition of property, plant and equipment | (404) | – | (404) |
| Acquisition of subsidiaries, net of cash acquired | (4,755) | – | (4,755) |
| Receipts from sale of property, plant and equipment | 31 | – | 31 |
| **Net cash outflow from investing activities** | (5,831) | – | (5,831) |
| **Financing activities** | | | |
| Issue of new shares | 9,185 | – | 9,185 |
| Expenses of fundraising | (523) | – | (523) |
| Finance costs paid | (2) | – | (2) |
| Increase in borrowings | – | – | – |
| Repayment of borrowings | (5) | – | (5) |
| **Net cash inflow from financing activities** | 8,655 | – | 8,655 |
| **Net increase in cash and cash equivalents** | 450 | – | 450 |
| Cash and cash equivalents at start of the year | 3,974 | – | 3,974 |
| **Cash and cash equivalents at end of year** | 4,424 | – | 4,424 |

## 1. Accounting policies continued

***Re-statement of prior year Company balance sheet***

| | 2016 Previously reported £000s | Adjustment £000s | 2016 Re-stated £000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 153 | – | 153 |
| Property, plant and equipment | 24 | – | 24 |
| Investments | 34,082 | – | 34,082 |
| Deferred tax asset | 457 | – | 457 |
| | 34,716 | – | 34,716 |
| **Current assets** | | | |
| Trade and other receivables | 11,808 | – | 11,808 |
| Cash and cash equivalents | 930 | – | 930 |
| | 12,738 | – | 12,738 |
| **Total assets** | 47,454 | – | 47,454 |
| **Current liabilities** | | | |
| Trade and other payables | (7,524) | – | (7,524) |
| Deferred revenue | (1,260) | – | (1,260) |
| **Total current liabilities** | (8,784) | – | (8,784) |
| **Net current assets** | 3,954 | – | 3,954 |
| **Non-current liabilities** | | | |
| Deferred consideration | (7,772) | – | (7,772) |
| Deferred tax liability | (5) | – | (5) |
| **Total liabilities** | (16,561) | – | (16,561) |
| **Net assets** | 30,893 | – | 30,893 |
| **Equity** | | | |
| Share capital | 406 | – | 406 |
| Share premium account | 17,957 | – | 17,957 |
| Merger reserve | 10,264 | – | 10,264 |
| Share-based payment reserve | 1,048 | 781 | 1,829 |
| Translation reserve | 2,550 | – | 2,550 |
| Retained earnings | (1,332) | (781) | (2,113) |
| **Total equity** | 30,893 | – | 30,893 |

### *Re-statement of 2015 Company balance sheet*

| | 2015 Previously reported £000s | 2015 Adjustment £000s | 2015 Re-stated £000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 4 | – | 4 |
| Property, plant and equipment | 8 | – | 8 |
| Investments | 10,557 | – | 10,557 |
| Deferred tax asset | 342 | – | 342 |
| | 10,911 | – | 10,911 |
| **Current assets** | | | |
| Trade and other receivables | 6,824 | – | 6,824 |
| Cash and cash equivalents | 1,407 | – | 1,407 |
| | 8,231 | – | 8,231 |
| **Total assets** | 19,142 | – | 19,142 |
| **Current liabilities** | | | |
| Trade and other payables | (5,945) | – | (5,945) |
| Deferred revenue | (773) | – | (773) |
| **Total current liabilities** | (6,718) | – | (6,718) |
| **Net current assets** | 1,513 | – | 1,513 |
| **Non-current liabilities** | | | |
| Deferred tax liability | (2) | – | (2) |
| **Total liabilities** | (6,720) | – | (6,720) |
| **Net assets** | 12,422 | – | 12,422 |
| **Equity** | | | |
| Share capital | 288 | – | 288 |
| Share premium account | 9,361 | – | 9,361 |
| Merger reserve | 2,981 | – | 2,981 |
| Share-based payment reserve | 650 | 442 | 1,092 |
| Translation reserve | (1,046) | – | (1,046) |
| Retained earnings | 188 | (442) | (254) |
| **Total equity** | 12,422 | – | 12,422 |

## 1. Accounting policies continued

***Re-statement of prior year Company cash flow statement***

| | 2016 Previously reported £000s | Adjustment £000s | 2016 Re-stated £000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | (1,581) | (339) | (1,920) |
| **Adjustment for:** | | | |
| Amortisation and depreciation | 21 | – | 21 |
| Share-based payment charge | 398 | 479 | 877 |
| Exchange adjustments | 118 | – | 118 |
| Acquisition of shares for non-cash consideration | (54) | – | (54) |
| Write-back of deferred consideration | (415) | – | (415) |
| Acquisition costs and deferred consideration | 726 | (140) | 586 |
| Investment revenues | (1) | – | (1) |
| Finance costs | 273 | – | 273 |
| **Operating cash flow before changes in working capital and provisions** | (515) | – | (515) |
| Increase in trade and other receivables | (4,938) | – | (4,938) |
| Increase in trade and other payables | 2,066 | – | 2,066 |
| **Cash utilised by operations** | (3,387) | – | (3,387) |
| Taxation paid | – | – | – |
| **Net cash outflow from operating activities** | (3,387) | – | (3,387) |
| **Investing activities** | | | |
| Acquisition of intangible assets | (150) | – | (150) |
| Acquisition of property, plant and equipment | (34) | – | (34) |
| Acquisition of subsidiaries | (5,568) | – | (5,568) |
| **Net cash outflow from investing activities** | (5,752) | – | (5,752) |
| **Financing activities** | | | |
| Issue of new shares | 9,185 | – | 9,185 |
| Expenses of fundraising | (523) | – | (523) |
| **Net cash inflow from financing activities** | 8,662 | – | 8,662 |
| **Net decrease in cash and cash equivalents** | (477) | – | (477) |
| Cash and cash equivalents at start of the year | 1,407 | – | 1,407 |
| **Cash and cash equivalents at end of year** | 930 | – | 930 |

***Property, plant and equipment and depreciation***

Property, plant and equipment are stated at cost less depreciation less any provision for impairment. Depreciation is provided on assets at rates calculated to write off the cost, less their estimated residual value, over their expected useful lives on the following bases:

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

***Business combinations***

Acquisitions of companies are accounted for in accordance with the principles of IFRS 3, as the Directors consider it reflects the economic substance of transactions.

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

***Goodwill***

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

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

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

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

***Investments***

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

***Intangible assets acquired separately***

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

| | |
|---|---|
| Software | 20–30% straight line |

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

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

## 1. Accounting policies continued

The computer software under development is currently under construction and so no amortisation has been recognised in the current year. The asset will subsequently be carried at cost less accumulated amortisation and accumulated impairment losses. These costs will be amortised to profit or loss using the straight line method over their estimated useful lives of five years, once the asset is in use.

### *Intangible assets acquired in a business combination*

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

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

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

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

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

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

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

### *Financial instruments*

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### Financial assets

The Company classifies its financial assets in the following categories:

- at fair value through profit or loss ('FVTPL')
- loans and receivables
- available-for-sale financial assets ('AFS')
- held-to-maturity investments

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

### Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it was acquired principally for the purpose of selling it in the short term or if so designated by management. Financial instruments at fair value through profit and loss comprise of 'derivative financial instruments'. Assets in this category are classified as current assets, if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

### Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise of 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

### Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

### *Financial liabilities and equity*
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

### Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

## 1. Accounting policies continued

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and estimated credit notes.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract based on time spent. Revenue is recognised when it is probable that economic benefits will flow to the Company.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Amounts received from customers before the related work is performed are included in the Consolidated balance sheet as deferred revenue. Amounts billed for work performed but not yet invoiced to the customer are included in the Consolidated balance sheet under Trade and other receivables as accrued income.

### *Reimbursement revenue and reimbursable expenses*

Reimbursable expenses are reflected in the Consolidated income statement as 'Reimbursement revenue' in total revenue and as 'Reimbursable expenses' separately from cost of sales as the Company is the primary obligor for these expenses despite being reimbursed by its clients. Reimbursable expenses are comprised primarily of payments to physicians (investigators) who oversee clinical trials and travel expenses for our clinical monitors and other employees. Costs for such activities are recorded based upon payment requests or invoices that have been received from third parties in the periods presented or accrued based on patient recruitment. Reimbursed expenses may fluctuate from period-to-period due, in part, to the lifecycle of contracts that are in progress at a particular point in time. Service revenues or revenues before reimbursements ('net service revenues') include any margin earned on reimbursed expenses. When such an expense is not reimbursed, they are classified as costs of sales on the Consolidated income statement.

### *Operating (loss)/profit*

Operating (loss)/profit is stated before investment income, finance costs and tax.

### *Taxation*

The tax expense represents the sum of tax currently payable and deferred tax.

Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenditure that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are enacted or substantively enacted at the reporting date.

### *Foreign currency translation*

The functional currency of the Company is the Euro, and the presentational currency is UK Sterling, meeting the requirements of shareholders. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated on a monthly basis at average exchange rates (unless this average is not a reasonable approximation of the exchange rates at the dates of the transactions, in which case income and expense items are translated at the exchange rates at the dates of the transactions); and
- all resulting exchange differences are recognised directly in Other comprehensive income.

***Pensions***

The pension costs charged in the financial statements represent the contributions payable by the Company during the year in accordance with IAS 19.

***Leasing and hire purchase commitments***

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

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

***Share-based payments***

The Group operates an equity-settled share-based option scheme under which the Group receives services from employees in consideration for equity instruments (options) of the Company. The fair value of the employees' services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. The total amount expensed is recognised over the vesting period, which is the period over which all the specified conditions are satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the vesting conditions.

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

Under IFRS 2, where such share options relate to employees of group companies other than the Company, a charge arises. Where such charge is not reimbursed by the entity, a capital contribution arises.

***Exceptional items***

Significant non-recurring transactions undertaken by the Group during the year are classified as exceptional items.

***Company***

The financial statements have been produced in accordance with International Financial Reporting Standards, the Companies Act 2006 and under the historical cost convention. The principal accounting policies adopted are the same as those for the Group consolidated financial statements except as noted below.

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

As permitted by Section 408 of the Companies Act 2006 the Income Statement and Statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss after tax for the financial year was £4,050,000 (2016: £1,977,000).

## 2. Critical accounting judgements and key sources of estimation and uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

### Revenue recognition

The amount of revenue to be recognised is based on, inter alia, management's estimate of the fair value of the consideration received or receivable, the stage of completion and of the point in time at which management considers that it becomes probable that economic benefits will flow to the entity (as the outcome is not always certain at the inception of a contract).

### *Key sources of estimation uncertainty*

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

### Bad debt provision

#### *Group*

In determining the level of provisioning for bad debts, the Directors have considered the aging of trade receivables, and the payment history and financial position of debtors. The provision against trade receivables as at 31 December 2017 was £214,000 (2016: £1,016,000) (note 21).

#### *Company*

In determining the level of provisioning for bad debts, the Directors have considered the aging of trade receivables, and the payment history and financial position of debtors. The provision against trade receivables as at 31 December 2017 was £212,000 (2016: £1,013,000) (note 21).

### Impairment of goodwill

Under IFRSs, goodwill is reviewed for impairment at least annually. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. The calculation of the recoverable amount requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to determine whether the recoverable amount is greater than the carrying value.

The key inputs for estimating the future cash flows of operating businesses are revenue growth over the next five years, terminal revenue growth, working capital changes and discount rate.

- PrimeVigilance, PharmInvent and Sound Opinion have been merged into a single cash generating unit. If revenue growth rates (including terminal growth) are reduced to zero, there would be no impairment to goodwill.
- If revenue growth rates for Ergomed Virtuoso were reduced by 20% (including terminal growth) from -10% to -30%, an impairment to goodwill would be required.
- If revenue growth rates for O+P and GASD were reduced by 3% from 5% to 2% and terminal growth rate from 2% to zero, an impairment to goodwill would be required.

The key inputs for estimating the cash flows of Haemostatix, a development company, are the probabilities of clinical success, expected market launch date, the expected royalty rate and the discount rate. The impact on the present value of Haemostatix projected cash flows is as follows:

- If the probability of clinical success at each stage of development is reduced by 14% (from Phase I 50%, Phase III 80%), an impairment to goodwill would be required.
- If the expected market launch date of PeproStat (2021) and ReadyFlow (2023) are each delayed by more than one year, an impairment to goodwill would be required.
- If the expected royalty rate was reduced by 3% from 20%, an impairment to goodwill would be required.
- If the discount rate was increased by 3.2% from 19.7%, an impairment to goodwill would be required.

The impairment provision against goodwill as at 31 December 2017 was £nil (2016: £nil). The carrying amount of goodwill and any impairment loss is disclosed in note 15.

### Fair value measurements

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available, and management estimates of commercial and development risk where appropriate. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. This includes fair valued acquired intangible assets with a net value of £18,217,000 and deferred consideration relating to acquisitions valued at £11,761,000.

Deferred consideration relates to the acquisitions of Haemostatix and PSR (note 26). The deferred consideration for Haemostatix comprises milestones of up to £4.0 million at start of Phase III (dependent on the Company's market capitalisation); plus £16.0 million sales-based milestone payments and an additional sum in the event that the enlarged group is able to utilise certain existing tax losses that are currently available to Haemostatix. The deferred consideration for Haemostatix was revalued at the year-end giving rise to an increase in value of £2,875,000 reflecting the successful progress of PeproStat through the Phase II study.

The Group incurs share-based payment charges in relation to share options awards made in the current and prior periods. This charge is based on the fair value of such share options for financial reporting purposes. In estimating the fair value of a share-based payment, the Group engages third party qualified valuers to perform the valuation. The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

## 3. Revenue

An analysis of the Group's revenue is as follows:

| | **2017 £000s** | 2016 £000s |
|---|---|---|
| Provision of clinical research services | **24,782** | 25,777 |
| Licence revenue | **370** | – |
| Provision of drug safety and medical information services | **22,472** | 13,456 |
| | **47,624** | 39,233 |
| Other operating income | **118** | 127 |
| Investment revenues | **41** | 2 |
| | **47,783** | 39,362 |

The provision of clinical research services includes the revenues of PSR following its acquisition by the Company on 2 October 2017.

## 4. Operating segments

### *Products and services from which reportable segments derive their revenues*

Information reported to the Group's Chief Executive Officer, who is the chief operating decision maker ('CODM'), for the purpose of resource allocation and assessment of segment performance is focused on the Group operating as two business segments, being Clinical Research Services ('CRS') and Drug Safety and Medical Information ('DS&MI'). All revenues arise from direct sales to customers. The segment information reported below all relates to continuing operations. The CRS business segment includes the results of PSR, which was acquired on 2 October 2017.

### *2017*

| | **Revenue from external customers** | | |
|---|---|---|---|
| | **CRS £000s** | **DS&MI £000s** | **Total £000s** |
| Net service revenue | **17,386** | **22,259** | **39,645** |
| Licence revenue | **370** | **–** | **370** |
| Reimbursement revenue | **7,396** | **213** | **7,609** |
| | **25,152** | **22,472** | **47,624** |

### *2016*

| | Revenue from external customers | | |
|---|---|---|---|
| | CRS £000s | DS&MI £000s | Total £000s |
| Net service revenue | 15,938 | 13,286 | 29,224 |
| Reimbursement revenue | 9,839 | 170 | 10,009 |
| | 25,777 | 13,456 | 39,233 |

## 4. Operating segments continued

### *Geographical information*

The Group's revenue from external customers by geographical location is detailed below:

***2017***

| | Revenue from external customers | | |
|---|---|---|---|
| | **CRS £000s** | **DS&MI £000s** | **Total £000s** |
| UK | **4,535** | **5,923** | **10,458** |
| Rest of Europe, Middle East and Africa | **13,550** | **9,292** | **22,842** |
| North America | **6,756** | **6,992** | **13,748** |
| Asia | **311** | **153** | **464** |
| Australia | **–** | **112** | **112** |
| | **25,152** | **22,472** | **47,624** |

***2016***

| | Revenue from external customers | | |
|---|---|---|---|
| | CRS £000s | DS&MI £000s | Total £000s |
| UK | 3,330 | 4,746 | 8,076 |
| Rest of Europe, Middle East and Africa | 15,590 | 4,461 | 20,051 |
| North America | 6,490 | 4,018 | 10,508 |
| Asia | 367 | 27 | 394 |
| Australia | – | 204 | 204 |
| | 25,777 | 13,456 | 39,233 |

***2017***

| Revenue | **CRS £000s** | **DS&MI £000s** | **Eliminations £000s** | **Consolidated total £000s** |
|---|---|---|---|---|
| Third party sales | **25,152** | **22,472** | **–** | **47,624** |
| Intersegment sales and recharges | **655** | **19** | **(674)** | **–** |
| Total revenue | **25,807** | **22,491** | **(674)** | **47,624** |

| | **CRS £000s** | **DS&MI £000s** | **Eliminations £000s** | **Consolidated total £000s** |
|---|---|---|---|---|
| Segment result | **631** | **4,376** | **7** | **5,014** |
| Research and development | | | | **(2,689)** |
| Amortisation of acquired fair valued intangible assets | | | | **(1,167)** |
| Share-based payment charge | | | | **(1,033)** |
| Deferred consideration for acquisitions expense | | | | **(752)** |
| Revaluation of deferred consideration for acquisition | | | | **(2,875)** |
| Acquisition costs | | | | **(259)** |
| Exceptional items | | | | **(143)** |
| Operating loss | | | | **(3,904)** |
| Investment revenues | | | | **3** |
| Finance costs | | | | **(546)** |
| Loss before tax | | | | **(4,447)** |
| Tax | | | | **(57)** |
| Loss after tax | | | | **(4,504)** |

### 2016

| Revenue | CRS £000s | DS&MI £000s | Eliminations £000s | Consolidated total £000s |
|---|---|---|---|---|
| Third party sales | 25,777 | 13,456 | – | 39,233 |
| Intersegment sales and recharges | 670 | 2 | (672) | – |
| Total revenue | 26,447 | 13,458 | (672) | 39,233 |

| | CRS £000s | DS&MI £000s | Eliminations £000s | Consolidated total Re-stated £000s |
|---|---|---|---|---|
| Segment result | 203 | 3,586 | 9 | 3,798 |
| Research and development | | | | (1,250) |
| Amortisation of acquired fair valued intangible assets | | | | (771) |
| Share-based payment charge | | | | (877) |
| Deferred consideration for acquisition expense | | | | (550) |
| Write-back of deferred consideration for acquisition | | | | 460 |
| Acquisition costs | | | | (584) |
| Exceptional items | | | | (177) |
| Operating profit | | | | 49 |
| Investment revenues | | | | 2 |
| Finance costs | | | | (274) |
| Loss before tax | | | | (223) |
| Tax | | | | 153 |
| Loss after tax | | | | (70) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit earned by each segment. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

### Segment net assets

| | **2017 £000s** | 2016 Re-stated £000s |
|---|---|---|
| CRS | **12,703** | 16,279 |
| DS&MI | **22,140** | 18,119 |
| Consolidated total net assets | **34,843** | 34,398 |

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

### Other segment information

| | Depreciation and amortisation | | Additions to non-current assets | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| CRS | **727** | 528 | **603** | 380 |
| DS&MI | **899** | 499 | **822** | 729 |
| | **1,626** | 1,027 | **1,425** | 1,109 |

### Information about major customers

In 2017, the Group had one customer that contributed 10% or more to the Group's revenue. Revenues of approximately £4,989,000 were recognised from this customer for clinical research services.

In 2016, the Group had two customers that contributed 10% or more to the Group's revenue. Revenues of approximately £5,479,000 and £4,771,000 were recognised from these customers respectively, all relating to the provision of clinical research services.

## 5. Loss for the year

| | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|
| **Loss for the year is stated after charging/(crediting):** | | |
| Depreciation of property, plant and equipment – owned | **423** | 231 |
| Depreciation of property, plant and equipment – leased | **4** | 5 |
| Amortisation of intangible assets | **32** | 20 |
| Depreciation and amortisation charges within Administrative expenses | **459** | 256 |
| Amortisation of acquired fair valued intangible assets | **1,167** | 771 |
| Exchange loss/(gain) | **526** | (274) |
| Gain on disposals of property, plant and equipment | **(7)** | (2) |
| Bad debt provision (reversed)/made during the year (note 21) | **(834)** | 855 |
| Staff costs (note 12) | **19,581** | 11,839 |

## 6. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

| | 2017 £000s | 2016 £000s |
|---|---|---|
| **Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts** | **161** | 128 |
| **Total audit fees** | **161** | 128 |
| – Interim review | **33** | 33 |
| **Total non-audit fees** | **33** | 33 |

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

## 7. Deferred consideration for acquisitions expense

| | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|
| PSR | **1** | – |
| PharmInvent | **751** | 550 |
| | **752** | 550 |

The terms of the acquisitions of PSR Group BV and European Pharminvent Services s.r.o. (now PrimeVigilance s.r.o.) included provisions for deferred consideration payable in cash and in equity. Where that deferred consideration is contingent upon the continued employment of the vendors, in accordance with IFRS 3, a charge through the income statement arises. The above amounts relate to the element of deferred consideration that is reimbursable in cash and that is contingent on the continued employment of the vendors. The element that is repayable in equity and that is contingent on the continued employment of the vendors is included as part of share-based payments in accordance with IFRS 2 (note 31).

## 8. Acquisition costs

| | 2017 £000s | 2016 £000s |
|---|---|---|
| Acquisition of PSR (note 34) | **218** | – |
| Acquisition of Haemostatix | **–** | 370 |
| Acquisition of O+P and Ergomed CDS | **–** | 85 |
| Acquisition of PharmInvent | **–** | 118 |
| Acquisition of Sound Opinion | **–** | 7 |
| Other M&A activities | **41** | 4 |
| | **259** | 584 |

## 9. Exceptional items

| | 2017 £000s | 2016 £000s |
|---|---|---|
| Severance costs relating to former CEO | **143** | – |
| Establishment of PrimeVigilance US office | **–** | 177 |
| | **143** | 177 |

In line with the way the Board and chief operating decision maker review the business, large one-off exceptional costs of severance costs regarding the former CEO and the establishment of the subsidiaries in US are shown as exceptional items.

## 10. Investment revenues

| | 2017 £000s | 2016 £000s |
|---|---|---|
| Bank and other interest | **3** | 2 |

## 11. Finance costs

| | 2017 £000s | 2016 £000s |
|---|---|---|
| Loan and other interest payable | **2** | 2 |
| Reversal of finance charges | **(37)** | – |
| Finance charge for deferred consideration for acquisitions | **581** | 272 |
| | **546** | 274 |

The finance charge for deferred consideration for acquisitions relates to the unwind of the discount used in the fair valuation of deferred consideration for Haemostatix and PSR.

## 12. Employees

### *Number of employees*

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

| | 2017 Number | 2016 Number |
|---|---|---|
| Administration | **78** | 52 |
| Project staff | **453** | 296 |
| Management | **25** | 18 |
| Directors | **4** | 4 |
| | **560** | 370 |

### *Employment costs*

| | 2017 £000s | 2016 £000s |
|---|---|---|
| Wages and salaries | **16,651** | 9,923 |
| Social security costs | **2,607** | 1,734 |
| Other pension costs (note 36) | **323** | 182 |
| | **19,581** | 11,839 |

Disclosures relating to key management personnel are included within the Directors' remuneration report on pages 26 to 28.

## 13. Taxation

| | 2017 £000s | 2016 £000s |
|---|---|---|
| **Current tax** | | |
| UK corporation tax credit for the year | **–** | (181) |
| Overseas corporation tax | **426** | 180 |
| Adjustment in respect of prior years | **(31)** | (16) |
| **Current tax charge/(credit) for the year** | **395** | (17) |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(338)** | (40) |
| Effect of changes in tax rates | **–** | (96) |
| Total tax charge/(credit) for the year | **57** | (153) |

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

| | 2017 £000s | 2016 £000s |
|---|---|---|
| **Deferred tax** | | |
| Change in estimated excess tax deductions related to share-based payments | **(60)** | (118) |
| Total income tax credit recognised directly in equity | **(60)** | (118) |

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19.25% (2016: 20%). The actual tax charges for the years differ from the standard rate for the reasons set out in the following reconciliation.

| | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|
| Loss on ordinary activities before taxation | **(4,447)** | (223) |
| Tax on loss on ordinary activities at blended standard rate of 19.25% (2016: 20%) | **(856)** | (45) |
| Non-deductible expenses | **1,347** | 517 |
| Additional allowable expenses | **(180)** | (449) |
| Timing differences arising in the year | **(339)** | (64) |
| R&D tax credit receivable | **–** | (181) |
| Adjustments to previous periods | **(31)** | (13) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(2)** | (3) |
| Difference due to change in rate of taxation | **–** | (80) |
| Increase/(utilisation) of tax losses | **109** | 186 |
| Translation effect | **9** | (21) |
| Tax charge/(credit) for the year | **57** | (153) |

The Finance Act 2017, which provides for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017, and from 19% to 17% effective from 1 April 2020 was substantively enacted on 16 November 2017. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

## 14. Loss per share

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

| | 2017 £000s | 2016 £000s |
|---|---|---|
| Loss for the purposes of basic earnings per share being net profit attributable to owners of the Company | **(4,504)** | (70) |
| Loss for the purposes of diluted earnings per share | **(4,504)** | (70) |

| | 2017 £000s | 2016 £000s |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of Ordinary Shares for the purposes of basic earnings per share | **41,086,201** | 35,573,733 |
| Effect of dilutive potential Ordinary Shares | | |
| Share options | **2,056,583** | 1,429,257 |
| Equity related earn-out | **213,033** | 31,150 |
| Weighted average number of Ordinary Shares for the purposes of diluted earnings per share | **43,355,817** | 37,034,140 |
| **Loss per share** | | |
| Basic | **(11.0)p** | (0.2)p |
| Diluted | **(11.0)p** | (0.2)p |

## 15. Goodwill

***Group***

| | £000s |
|---|---|
| **Cost** | |
| At 1 January 2016 | 7,488 |
| Arising on acquisition of subsidiary | 4,797 |
| At 31 December 2016 | 12,285 |
| Adjustments on amounts arising on acquisition of subsidiaries (note 33) | 57 |
| Arising on acquisition of subsidiaries (note 34) | 2,535 |
| Translation movement | 392 |
| **At 31 December 2017** | **15,269** |
| **Accumulated impairment losses** | |
| **At 1 January 2016, 1 January 2017 and 31 December 2017** | **–** |
| **Net book value** | |
| **At 31 December 2017** | **15,269** |
| At 31 December 2016 | 12,285 |

The goodwill arising during the year ended 31 December 2017 relates to an adjustment arising on the acquisition of Haemostatix and to the acquisition of PSR on 2 October 2017.

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

| | 2017 £000s | 2016 £000s | 2015 £000s |
|---|---|---|---|
| **Clinical Research Services** | | | |
| Ergomed Virtuoso | **506** | 455 | 455 |
| Haemostatix | **2,143** | 2,086 | – |
| Ergomed CDS | **568** | 487 | – |
| PSR | **2,564** | – | – |
| | **5,781** | 3,028 | 455 |
| **Drug Safety and Medical Information** | **9,488** | 9,257 | 7,033 |
| | **15,269** | 12,285 | 7,488 |

The goodwill associated with the Drug Safety and Medical Information segment has arisen from the acquisitions of PrimeVigilance, Sound Opinion and PharmInvent. These businesses trade as a single cash generating unit and the associated goodwill is combined.

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

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates and growth rates.

## 15. Goodwill continued

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on management's estimates based on the Group's planned organic expansion of its operations and broadened overall offering, and the increased demand for services. Profit margins included in the projections are based on industry standards.

The Group prepares cash flow forecasts for the next five years, derived from the most recent financial budgets approved by the Board, and forecasts cash flows for the following five years based on a terminal growth rate of 2%, except for the Ergomed Virtuoso Sarl CGU and the Haemostatix Limited CGU, both of the CRS segment. This rate does not exceed the average long term growth rate for the relevant markets. The Ergomed Virtuoso Sarl CGU forecasts cash flows over the remaining life of the Customer Contract using a terminal growth rate of 0%. The Haemostatix Limited CGU forecasts cash flows over the patent life of the In-process research and development using a terminal growth rate of 0%.

The pre-tax rate used to discount the forecast cash flows from the CGUs of both the CRS and DS&MI segments is 19.7%.

***Company***

As at 31 December 2017, the Company does not hold any Goodwill.

## 16. Other intangible assets

***Group***

| | Software £000s | Customer contracts £000s | Customer relationships £000s | Brands £000s | In-Process R&D £000s | Technology £000s | Total £000s |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2016 | 751 | 1,070 | 1,690 | 460 | – | – | 3,971 |
| Acquired with subsidiaries | – | – | 1,487 | – | 15,200 | 419 | 17,106 |
| Additions | 705 | – | – | – | – | – | 705 |
| Assets written-off | (18) | – | – | – | – | – | (18) |
| Re-allocation to tangible fixed assets | (2) | – | – | – | – | – | (2) |
| Translation movement | 22 | – | – | – | – | – | 22 |
| At 31 December 2016 | 1,458 | 1,070 | 3,177 | 460 | 15,200 | 419 | 21,784 |
| Acquired with subsidiary (see note 34) | – | 189 | 162 | 349 | – | – | 700 |
| Additions | 704 | – | – | – | – | – | 704 |
| Translation movement | 16 | 19 | 122 | 4 | – | 26 | 187 |
| **At 31 December 2017** | **2,178** | **1,278** | **3,461** | **813** | **15,200** | **445** | **23,375** |
| **Amortisation** | | | | | | | |
| At 1 January 2016 | 110 | 481 | 469 | 92 | – | – | 1,152 |
| Charge for the year | 20 | – | – | – | – | – | 20 |
| Amortisation cost of acquired fair valued intangible assets | – | 214 | 398 | 61 | – | 98 | 771 |
| Assets written-off | (18) | – | – | – | – | – | (18) |
| Translation movement | 17 | – | – | – | – | – | 17 |
| At 31 December 2016 | 129 | 695 | 867 | 153 | – | 98 | 1,942 |
| Charge for the year | 32 | – | – | – | – | – | 32 |
| Amortisation cost of acquired fair valued intangible assets | – | 246 | 681 | 72 | – | 168 | 1,167 |
| Translation movement | 5 | – | – | – | – | – | 5 |
| **At 31 December 2017** | **166** | **941** | **1,548** | **225** | **–** | **266** | **3,146** |
| **Net book value** | | | | | | | |
| **At 31 December 2017** | **2,012** | **337** | **1,913** | **588** | **15,200** | **179** | **20,229** |
| At 31 December 2016 | 1,329 | 375 | 2,310 | 307 | 15,200 | 321 | 19,842 |

The intangible assets acquired with subsidiaries during 2016 relate to the acquisitions of Haemostatix, O+P and GASD and PharmInvent on 24 May 2016, 12 June 2016 and 28 November 2016 respectively.

The intangible assets acquired with subsidiary during 2017 relate to the acquisition of PSR Group BV on 2 October 2017.

Included within Software is software under development with an asset value of £1,683,000 (2016: £1,125,000). The software is currently still under construction and so no amortisation has been recognised in the current year.

***Company***

| | Software £000s |
|---|---|
| **Cost** | |
| At 1 January 2016 | 82 |
| Translation movement | 12 |
| Additions | 150 |
| At 31 December 2016 | 244 |
| Translation movement | 12 |
| Additions | 278 |
| **At 31 December 2017** | **534** |
| **Amortisation** | |
| At 1 January 2016 | 78 |
| Charge for the year | 1 |
| Translation movement | 12 |
| At 31 December 2016 | 91 |
| Charge for the year | 3 |
| Translation movement | 4 |
| **At 31 December 2017** | **98** |
| **Net book value** | |
| **At 31 December 2017** | **436** |
| At 31 December 2016 | 153 |

Intangible assets represent software currently in use by the business.

## 17. Property, plant and equipment

***Group***

| | Leasehold improvements £000s | Fixtures and fittings £000s | Motor vehicles £000s | Computer equipment £000s | Laboratory equipment £000s | Total £000s |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2016 | 53 | 81 | 68 | 535 | – | 737 |
| Additions | 17 | 67 | 9 | 269 | 42 | 404 |
| Acquired with subsidiaries | – | 5 | 145 | 35 | 3 | 188 |
| Re-allocation from Intangible assets | 2 | – | – | – | – | 2 |
| Disposals | – | – | (2) | (52) | – | (54) |
| Translation movement | 8 | 14 | 12 | 89 | – | 123 |
| At 31 December 2016 | 80 | 167 | 232 | 876 | 45 | 1,400 |
| Additions | 19 | 109 | 61 | 521 | 11 | 721 |
| Acquired with subsidiaries (note 34) | – | 5 | – | 27 | – | 32 |
| Re-allocations | – | (4) | 14 | (10) | – | – |
| Disposals | (2) | (1) | (10) | (11) | – | (24) |
| Translation movement | 5 | 11 | 22 | 37 | – | 75 |
| **At 31 December 2017** | **102** | **287** | **319** | **1,440** | **56** | **2,204** |
| **Depreciation** | | | | | | |
| At 1 January 2016 | 30 | 35 | 22 | 315 | – | 402 |
| Charge for the year | 10 | 34 | 25 | 158 | 9 | 236 |
| Disposals | – | – | – | (25) | – | (25) |
| Translation movement | 4 | 6 | 4 | 56 | – | 70 |
| At 31 December 2016 | 44 | 75 | 51 | 504 | 9 | 683 |
| Charge for the year | 15 | 38 | 84 | 279 | 11 | 427 |
| Disposals | (2) | – | (7) | (11) | – | (20) |
| Translation movement | 4 | 4 | 7 | 21 | – | 36 |
| **At 31 December 2017** | **61** | **117** | **135** | **793** | **20** | **1,126** |
| **Net book value** | | | | | | |
| **At 31 December 2017** | **41** | **170** | **184** | **647** | **36** | **1,078** |
| At 31 December 2016 | 36 | 92 | 181 | 372 | 36 | 717 |

## 17. Property, plant and equipment continued

### *Company*

| | Fixtures and fittings £000s | Computer equipment £000s | Total £000s |
|---|---|---|---|
| **Cost** | | | |
| 1 January 2016 | 1 | 26 | 27 |
| Additions | 18 | 16 | 34 |
| Translation movement | 1 | 5 | 6 |
| At 31 December 2016 | 20 | 47 | 67 |
| Additions | 40 | 60 | 100 |
| Translation movement | 2 | 3 | 5 |
| **At 31 December 2017** | **62** | **110** | **172** |
| **Depreciation** | | | |
| 1 January 2016 | 1 | 18 | 19 |
| Charge for the year | 12 | 8 | 20 |
| Translation movement | – | 4 | 4 |
| At 31 December 2016 | 13 | 30 | 43 |
| Charge for the year | 10 | 20 | 30 |
| Translation movement | 2 | 1 | 3 |
| **At 31 December 2017** | **25** | **51** | **76** |
| **Net book value** | | | |
| **At 31 December 2017** | **37** | **59** | **96** |
| At 31 December 2016 | 7 | 17 | 24 |

Included above are assets held under finance leases or hire purchase contracts as follows:

### *Group*

| | Motor Vehicles £000s |
|---|---|
| **Net book value** | |
| **At 31 December 2017** | **39** |
| At 31 December 2016 | 32 |
| **Depreciation charge for the year** | |
| **Year ended 31 December 2017** | **6** |
| Year ended 31 December 2016 | 5 |

### *Company*

As at 31 December 2017, no assets in the above were held by the Company under finance leases or hire purchase contracts.

## 18. Subsidiaries

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

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

| | | Number of wholly owned subsidiaries | |
|---|---|---|---|
| Principal activity | Place of incorporation and operation | **2017** | 2016 |
| Clinical research services | Germany | **2** | 3 |
| Clinical research services | Poland | **1** | 1 |
| Clinical research services | Serbia | **1** | 1 |
| Clinical research services | USA | **1** | 1 |
| Clinical research services | Croatia | **1** | 1 |
| Clinical research services | Russia | **1** | 1 |
| Clinical research services | Bosnia | **1** | 1 |
| Clinical research services | UAE | **1** | 1 |
| Clinical research services | Switzerland | **1** | 1 |
| Clinical research services | Taiwan | **1** | 1 |
| Clinical research services | Netherlands | **1** | – |
| Drug safety and medical information services | United Kingdom | **2** | 2 |
| Drug safety and medical information services | Croatia | **1** | 1 |
| Drug safety and medical information services | Serbia | **1** | 1 |
| Drug safety and medical information services | USA | **1** | 1 |
| Drug safety and medical information services | Czech Republic | **2** | 2 |
| Research and development | United Kingdom | **1** | 1 |
| Dormant | United Kingdom | **1** | 1 |

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

| Company | Registered address |
|---|---|
| Ergomed GmbH | Herriotstraße 1, 60528 Frankfurt am Main, Germany |
| Ergomed Sp. z o.o. | Kolowa 8, 30-134 Krakow, Poland |
| Ergomed d.o.o. Novi Sad | Avgusta Cesarca 18, 21 000 Novi Sad, Serbia |
| Ergomed Clinical Research Inc | 9901 IH-10W, Suite 800, 78230, San Antonio, TX, USA |
| Ergomed Istraživanja Zagreb d.o.o. | Oreškovićeva 20a, 10 020 Zagreb, Croatia |
| Ergomed Clinical Research LLC | 125040, Moscow, 17 Skakovaya Street, Building 2, Office 2714, The Russian Federation |
| Ergomed d.o.o. Sarajevo | Zmaja od Bosne 7-7a, Sarajevo, Bosnia and Herzegovina |
| Ergomed Clinical Research FZ-LLC | Dubai International Academic City, Premises 06, Floor: Ground, Building: 03, Dubai, UAE |
| Ergomed Virtuoso Sarl | 18, Avenue Lois-Casai, 1209 Geneva, Switzerland |
| Ergomed Clinical Research Limited | Fl. 2, No. 467, Sec.6, Zhongxiao E Rd., Nangang District, Taipei City 115, Taiwan |
| Ergomed CDS GmbH | Im Mediapark 2, D-50670 Cologne, Germany |
| PSR Group BV | Planetenweg 5 in (2132 HN) Hoofddorp, Netherlands |
| PrimeVigilance Limited | 26-28 Frederick Sanger Road, Surrey Research Park, Guildford, Surrey, GU2 7YD, UK |
| PrimeVigilance Zagreb d.o.o. | Oreškovićeva 20a, 10 020 Zagreb, Croatia |
| PrimeVigilance d.o.o. Beograd | Đorđa Stanojevića 14, Beograd – Novi Beograd, Serbia |
| PrimeVigilance Inc | Reservoir Place, 1601 Trapelo Road, Waltham, MA 02451, USA |
| Sound Opinion Limited | 26-28 Frederick Sanger Road, Surrey Research Park, Guildford, Surrey, GU2 7YD, UK |
| PrimeVigilance s.r.o. | Prague 3 – Vinohrady, Slezska 856/74, 13000, Czech Republic |
| Pharminvent regulatory s.r.o. | Prague 3 – Vinohrady, Slezska 856/74, 13000, Czech Republic |
| Haemostatix Limited | BioCity Nottingham, Pennyfoot Street, Nottingham, NG1 1GF, UK |
| Ergomed Clinical Research Limited | 26-28 Frederick Sanger Road, Surrey Research Park, Guildford, Surrey, GU2 7YD, UK |

## 18. Subsidiaries continued

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

| Principal activity – clinical research services | Place of incorporation and operation | Class | Holding |
|---|---|---|---|
| Ergomed GmbH | Germany | Ordinary | 100% |
| Ergomed Spolka z o.o.[1] | Poland | Ordinary | 99% |
| Ergomed d.o.o. Novi Sad | Serbia | Ordinary | 100% |
| Ergomed Clinical Research Inc | USA | None issued | 100% |
| Ergomed Istrazivanja Zagreb d.o.o. | Croatia | Ordinary | 100% |
| Ergomed Clinical Research LLC | Russia | Ordinary | 100% |
| Ergomed d.o.o. Sarajevo | Bosnia | Ordinary | 100% |
| Ergomed Clinical Research FZ LLC | UAE | Ordinary | 100% |
| Ergomed Virtuoso Sarl | Switzerland | Ordinary | 100% |
| Ergomed Clinical Research Limited | Taiwan | Ordinary | 100% |
| Ergomed CDS GmbH | Germany | None issued | 100% |
| PSR Group BV[2] | Netherlands | Ordinary | 100% |

| Principal activity – drug safety and medical information services | Place of incorporation and operation | Class | Holding |
|---|---|---|---|
| PrimeVigilance Limited | United Kingdom | Ordinary | 100% |
| Sound Opinion Limited | United Kingdom | Ordinary | 100% |
| PrimeVigilance s.r.o. | Czech Republic | None issued | 100% |

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

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

1 The non-controlling interest is not disclosed as it is not material and does not take a benefit from the holding.
2 This company was acquired by the Company on 2 October 2017 (note 34).

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

## 19. Investments

***Group***

| | Asarina Pharma AB £000s | Modus Therapeutics Holding AB £000s | Ergomed Saudi Limited £000s | Total £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2016 | – | 144 | 39 | 183 |
| Additions | – | 54 | – | 54 |
| Translation movement | – | 30 | 4 | 34 |
| At 31 December 2016 | – | 228 | 43 | 271 |
| Additions | 280 | 181 | – | 461 |
| Translation movement | 3 | 17 | 2 | 22 |
| **At 31 December 2017** | **283** | **426** | **45** | **754** |
| **Provision for impairment** | | | | |
| **At 31 December 2016 and 31 December 2017** | **–** | **–** | **–** | **–** |
| **Net book value** | | | | |
| **At 31 December 2017** | **283** | **426** | **45** | **754** |
| At 31 December 2016 | – | 228 | 43 | 271 |

### *Company*

| | Capital contribution to subsidiary undertakings £000s | Shares in subsidiary undertakings £000s | Asarina Pharma AB £000s | Modus Therapeutics Holding AB £000s | Ergomed Saudi Limited £000s | Total £000s |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2016 | – | 10,374 | – | 144 | 39 | 10,557 |
| Additions | – | 20,007 | – | 54 | – | 20,061 |
| Translation movement | – | 3,430 | – | 30 | 4 | 3,464 |
| At 31 December 2016 | – | 33,811 | – | 228 | 43 | 34,082 |
| Additions | 124 | 3,649 | 280 | 181 | – | 4,234 |
| Translation movement | – | 1,280 | 3 | 17 | 2 | 1,302 |
| **At 31 December 2017** | **124** | **38,740** | **283** | **426** | **45** | **39,618** |
| **Provision for impairment At 31 December 2016 and 31 December 2017** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Net book value At 31 December 2017** | **124** | **38,740** | **283** | **426** | **45** | **39,618** |
| At 31 December 2016 | – | 33,811 | – | 228 | 43 | 34,082 |

#### Modus Therapeutics Holding AB

Under the co-development agreement with Modus Therapeutics AB, the Group receives shares in Modus Therapeutics Holding AB in return for its contribution to the co-development programme. During the year, shares valued at £181,000 (2016: £54,000) were issued to the Group.

#### Asarina Pharma AB

Under the co-development agreement with Asarina Pharma AB, the Group receives shares in Asarina Pharma AB in return for its contribution to the co-development programme. During the year, shares valued at £280,000 (2016: £nil) were issued to the Group.

#### Ergomed Saudi Limited

On 22 July 2014, the Group invested £40,000 for a 50% holding in a joint venture in Saudi Arabia – 'Ergomed Saudi Limited'. The operation is still in the set up phase and the asset is held at cost.

## 20. 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 period.

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

### *Deferred tax assets*

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Tax losses £000s | Timing differences £000s | Total £000s | Tax losses £000s | Timing differences £000s | Total £000s |
| 1 January 2016 | 3 | 362 | 365 | 3 | 339 | 342 |
| Acquired with subsidiaries | – | 1,015 | 1,015 | – | – | – |
| Charge to profit or loss | (3) | (47) | (50) | (3) | – | (3) |
| Credit direct to equity | – | 118 | 118 | – | 118 | 118 |
| At 31 December 2016 | – | 1,448 | 1,448 | – | 457 | 457 |
| Fair value adjustment | – | (58) | (58) | – | – | – |
| Credit to profit or loss | – | 163 | 163 | – | 161 | 161 |
| Credit direct to equity | – | 60 | 60 | – | 60 | 60 |
| **At 31 December 2017** | **–** | **1,613** | **1,613** | **–** | **678** | **678** |

## 20. Deferred tax continued

***Deferred tax liabilities***

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | ACAs £000s | Timing differences £000s | Total £000s | ACAs £000s | Timing differences £000s | Total £000s |
| 1 January 2016 | (124) | (392) | (516) | (2) | – | (2) |
| Acquired with subsidiaries | – | (3,145) | (3,145) | – | – | – |
| (Charge)/credit to profit or loss | (48) | 291 | 243 | (3) | – | (3) |
| At 31 December 2016 | (172) | (3,246) | (3,418) | (5) | – | (5) |
| Acquired with subsidiaries | – | (175) | (175) | – | – | – |
| (Charge)/credit to profit or loss | (45) | 241 | 196 | (7) | – | (7) |
| **At 31 December 2017** | **(217)** | **(3,180)** | **(3,397)** | **(12)** | **–** | **(12)** |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Deferred tax assets | **1,613** | 1,448 | **678** | 457 |
| Deferred tax liabilities | **(3,397)** | (3,418) | **(12)** | (5) |
| Net deferred tax (liabilities)/assets | **(1,784)** | (1,970) | **666** | 452 |

At 31 December 2017, the Group had unused tax losses of £6,615,000 (2016: £5,731,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £5,324,000 (2016: £5,639,000) of such losses. No deferred tax asset has been recognised in respect of the remaining £1,291,000 (2016: £nil) as it is not considered probable that there will be future profits available. These losses may be carried forward indefinitely.

Included in the deferred tax arising on timing differences, £674,000 (2016: £452,000) relates to a deferred tax asset arising on unexercised share options.

## 21. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Trade receivables | **13,390** | 9,540 | **6,743** | 5,117 |
| Amounts receivable from Group companies | **–** | – | **6,714** | 3,963 |
| Other receivables | **1,702** | 1,025 | **884** | 527 |
| Prepayments | **733** | 841 | **183** | 231 |
| Accrued income | **2,443** | 2,538 | **1,378** | 1,671 |
| Corporation tax receivable | **982** | 1,014 | **–** | 299 |
| | **19,250** | 14,958 | **15,902** | 11,808 |

Included in trade receivables are the following amounts that are past due at the reporting date by the following periods.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Less than 30 days overdue | **3,293** | 1,795 | **1,252** | 964 |
| 31 to 60 days overdue | **932** | 1,588 | **415** | 161 |
| 61 to 90 days overdue | **403** | 105 | **109** | 98 |
| More than 90 days overdue | **2,180** | 221 | **1,956** | 138 |
| | **6,808** | 3,709 | **3,732** | 1,361 |

The decrease in provision for doubtful debts shown below gives rise to an increase in trade receivables more than 90 days overdue of £834,000.

Movement in the provision for doubtful debts.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Balance at the beginning of the year | **1,016** | 233 | **1,013** | 188 |
| Impairment losses recognised | **–** | (116) | **–** | (72) |
| Acquired with subsidiaries | **–** | 3 | **–** | – |
| Provision (reversed)/made during the year | **(834)** | 855 | **(833)** | 856 |
| Translation movements | **32** | 41 | **32** | 41 |
| | **214** | 1,016 | **212** | 1,013 |

The carrying value of trade receivables approximates to their fair value at the balance sheet date.

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

## 22. Other current assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Clinical trial material | **502** | 240 | **–** | – |

Other current assets relates to the preparation of GMP material for use in the clinical development programmes of Haemostatix Limited.

## 23. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Cash at bank | **3,218** | 4,424 | **288** | 930 |

The effective interest rate at the balance sheet date on cash at bank was 0.005% (2016: 0.006%).

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| GBP | **185** | 1,144 | **67** | 36 |
| Euro | **1,890** | 1,239 | **200** | 395 |
| USD | **383** | 1,078 | **1** | 472 |
| Other | **760** | 963 | **20** | 27 |
| | **3,218** | 4,424 | **288** | 930 |

## 24. Borrowings

***Group***

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Capital £000s** | **Interest £000s** | Capital £000s | Interest £000s |
| **Secured borrowings at amortised cost** | | | | |
| Finance leases | | | | |
| Borrowings within one year | **12** | **1** | 3 | – |
| Between one and two years | **6** | **–** | 3 | – |
| Between two and five years | **–** | **–** | 2 | – |
| Borrowings greater than one year | **6** | **–** | 5 | – |
| Totals | **18** | **1** | 8 | – |

Finance leases are secured on the assets to which they relate.

***Company***

As at 31 December 2017, the Company had no borrowings.

## 25. Trade and other payables

The carrying amount of the Group's trade and other payables approximates to their fair value at the balance sheet date and are uncovered.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Trade creditors | **4,942** | 3,037 | **2,541** | 1,754 |
| Amounts payable to related parties | **418** | 49 | **401** | 42 |
| Amounts payable to Group companies | **–** | – | **7,163** | 3,502 |
| Social security and other taxes | **1,113** | 632 | **178** | 83 |
| Other payables | **1,186** | 600 | **417** | 69 |
| Customer advances | **751** | – | **–** | – |
| Accruals | **2,307** | 2,759 | **1,374** | 2,074 |
| | **10,717** | 7,077 | **12,074** | 7,524 |

The carrying amount of the Group and Company's trade and other payables approximates to their fair value at the balance sheet date and are uncovered.

## 26. Deferred consideration

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Due within one year | | | | |
| Haemostatix | **1,957** | – | **1,957** | – |
| Due after one year | | | | |
| Haemostatix | **9,168** | 7,772 | **9,168** | 7,772 |
| PSR | **636** | – | **636** | – |
| | **9,804** | 7,772 | **9,804** | 7,772 |
| | **11,761** | 7,772 | **11,761** | 7,772 |

This amount relates to the fair value of the deferred consideration in relation to the acquisition of Haemostatix Limited and PSR Group BV, being the Board's best estimates based on discounted and risk adjusted forecasts.

## 27. Share capital

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 No.** | 2016 No. | **2017 No.** | 2016 No. |
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of £0.01 each | | | | |
| Balance at 1 January | **40,599,424** | 28,750,000 | **40,599,424** | 28,750,000 |
| Shares issued during the year (net of contingent shares) | **2,081,389** | 11,754,806 | **2,081,389** | 11,754,806 |
| Contingent shares for deferred consideration | **101,163** | 94,618 | **101,163** | 94,618 |
| Balance at 31 December | **42,781,976** | 40,599,424 | **42,781,976** | 40,599,424 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of £0.01 each | | | | |
| Balance at 1 January | **406** | 288 | **406** | 288 |
| Shares issued for cash during the year | **18** | 66 | **18** | 66 |
| Shares issued for non-cash consideration during the year | **3** | 51 | **3** | 51 |
| Contingent shares for deferred consideration | **1** | 1 | **1** | 1 |
| Balance at 31 December | **428** | 406 | **428** | 406 |

During 2017, a total of 2,176,007 ordinary shares of £0.01 each ('Ordinary Shares') were issued, of which 94,618 were shown as contingent shares for deferred consideration in 2016, 1,757,576 were issued for cash in an institutional placing and 323,813 were issued as part consideration for PSR Group BV. In addition, a further 100,818 Ordinary Shares will be issued to part satisfy the second component of deferred consideration for PharmInvent and 345 Ordinary Shares will be issued to part satisfy the first component of deferred consideration for PSR Group BV.

## 28. Share premium account

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| **Allotted, called up and fully paid** | | | | |
| Balance at 1 January | **17,957** | 9,361 | **17,957** | 9,361 |
| Shares issued for cash during the year | **2,882** | 9,120 | **2,882** | 9,120 |
| Expenses of share issue for cash during the year | **(223)** | (524) | **(223)** | (524) |
| Balance at 31 December | **20,616** | 17,957 | **20,616** | 17,957 |

The share premium arising during 2017 related to the issue of 1,757,576 Ordinary Shares at a price of £1.65 per share on 2 October 2017 in connection with an institutional placing. Expenses of £223,000 relating to the issue of shares were deducted from the Share premium account.

## 29. Merger reserve

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Balance at 1 January | **10,264** | 2,981 | **10,264** | 2,981 |
| Shares issued for non-cash during the year | **555** | 7,144 | **555** | 7,144 |
| Contingent shares for deferred consideration | **189** | 139 | **189** | 139 |
| Balance at 31 December | **11,008** | 10,264 | **11,008** | 10,264 |

The merger reserve arising during 2017 for non-cash consideration related to the issue of a total of 323,813, Ordinary Shares. These were issued at £1.72 per share as part consideration for PSR Group BV.

In addition, 100,819 Ordinary Shares will be issued at £1.87 per share to part satisfy the second component of deferred consideration for PharmInvent.and 346 shares will be issued at £1.72 to satisfy the first component of deferred consideration for PSR Group BV.

## 30. Reserves

The movements in reserves of the Group are shown in the Consolidated statement of changes in equity and the movements in reserves of the Company are shown in the Company statement of changes in equity.

### *Share-based payment reserve*

The corresponding credit associated with the charge for share options (note 31) is recognised as a credit to the share-based payment reserve.

### *Translation reserve*

The translation reserve records any exchange differences arising as a result of the translation of foreign currency equity balances and foreign currency non-monetary items.

## 31. Share-based payments

The Company operates three share option schemes:

- the Ergomed plc Long Term Incentive Plan;
- the Unapproved Executive Share Option Scheme 2007; and
- an Unapproved Executive Share Option Agreement made with Rolf Stahel.

In addition, arrangements are in place between Dr Miroslav Reljanovic, a shareholder of the Company, and certain Directors, former Directors and the Company Secretary.

Under the terms of the acquisitions of PharmInvent in November 2016 and PSR Group BV in October 2017, a proportion of deferred consideration is payable in equity. Where such deferred consideration is dependent on the relevant vendor remaining as an employee of the acquired company, a share-based payment charge arises.

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

| | **2017 £000s** | 2016 £000s |
|---|---|---|
| Ergomed plc Long Term Incentive Plan | **550** | 331 |
| Rolf Stahel Unapproved Executive Share Option Agreement | **4** | 67 |
| Non-dilutive share options | **175** | 339 |
| Deferred consideration for acquisitions | **304** | 140 |
| Weighted average number of Ordinary Shares for the purposes of diluted earnings per share | **1,033** | 877 |

Included in the above share-based payment charges, £253,000 (2016: £474,000) relates to share option awards made to key management personnel.

### *Ergomed plc Long Term Incentive Plan*

The Ergomed plc Long Term Incentive Plan allows for the grant of options to both executives and all other Group employees, which may or may not be subject to performance criteria. It further provides for any options granted under its terms to be options that qualify under the Enterprise Management Incentives legislation ('Qualifying EMI options'), as well as options that do not qualify ('Unapproved options').

Selected Directors and employees of the Group may be granted options under the Long Term Incentive Plan at the discretion of the Company's Board of Directors or a duly authorised committee thereof (the 'Committee'). Employees and Directors will be eligible to participate in the Long Term Incentive Plan as follows:

i) Qualifying EMI options can be granted to an employee or Director of the Company (or a Group company) who commits at least 25 hours per week or, if less, at least 75% of his or her working time on the business of the Company (or Group company) and, at the grant date, does not either individually or together with his associates control more than 30% of the ordinary share capital of the Company.
ii) Unapproved options can be granted to any employee (including an Executive Director) of a Group company.

At 31 December 2017, the following unexercised share options to acquire Ordinary Shares were outstanding:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price** | Number of share options | Weighted average exercise price |
| Outstanding at the beginning of the year | **2,038,000** | **£1.20** | 1,353,000 | £1.64 |
| Granted during the year | **257,000** | **£1.407** | 835,000 | £0.56 |
| Lapsed during the year | **(40,000)** | **£0.616** | (150,000) | £1.625 |
| Outstanding at the end of the year | **2,255,000** | **£1.217** | 2,038,000 | £1.20 |
| Vested at the end of the year | **172,357** | | 26,429 | |
| Exercisable at the end of the year | **172,357** | | 26,429 | |

At 31 December 2017, the following unexercised share options to acquire Ordinary Shares were outstanding:

| Year of grant | Exercise period | Exercise price per share | **2017 No.** | 2016 No. |
|---|---|---|---|---|
| 2015 | 03/06/2018 – 02/06/2025 | £1.625 | **913,000** | 928,000 |
| 2015 | 03/06/2018 – 23/12/2025 | £1.69 | **275,000** | 275,000 |
| 2016 | 11/01/2019 – 10/01/2026 | £0.01 | **200,000** | 200,000 |
| 2016 | 11/01/2019 – 10/01/2026 | £0.01 | **200,000** | 200,000 |
| 2016 | 02/08/2016 – 02/06/2026 | £1.39 | **185,000** | 185,000 |
| 2016 | 03/07/2016 – 02/06/2026 | £0.01 | **100,000** | 100,000 |
| 2016 | 03/01/2017 – 02/12/2026 | £1.39 | **150,000** | 150,000 |
| 2017 | 24/02/2020 – 23/02/2027 | £2.10 | **155,000** | – |
| 2017 | 29/04/2017 – 28/03/2027 | £0.01 | **27,000** | – |
| 2017 | 16/04/2020 – 11/04/2027 | £0.01 | **50,000** | – |

The weighted average remaining life was eight years (2016: eight years and ten months).

Options were valued using a Black-Scholes option pricing model, using the following inputs:

| Award date | **24 February 2017** | **29 March 2017** | **12 April 2017** | **12 April 2017** |
|---|---|---|---|---|
| Fair value per share option | £0.3267 | £1.9404 | £1.9016 | £1.9410 |
| Share price | £2.09 | £0.01 | £1.97 | £1.97 |
| Exercise price | £2.10 | £1.39 | £0.01 | £0.01 |
| Volatility | 25.38% | 26.3% | 25.2% | 25.4% |
| Expected life | 3 years | 1 year | 0.97 years | 3.01 years |
| Expected dividends | 1.0% | 1.0% | 1.0% | 1.0% |
| Risk free rate | 0.7% | 0.12% | 0.08% | 0.18% |

| Award date | 11 January 2016 | 11 January 2016 | 3 July 2016 | 3 July 2016 | 3 December 2016 |
|---|---|---|---|---|---|
| Fair value per share option | £1.6327 | £0.4300 | £0.1441 | £1.1791 | £0.2493 |
| Share price | £1.693 | £1.693 | £1.21 | £1.21 | £1.43 |
| Exercise price | £0.01 | £0.01 | £1.39 | £0.01 | £1.39 |
| Volatility | 27% | 27% | 27% | 28% | 28% |
| Expected life | 3 years | 3 years | 2.9 years | 1.7 years | 2.5 years |
| Expected dividends | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Risk free rate | 0.7% | 0.7% | 0.23% | 0.11% | 0.21% |

| Award date | 3 June 2015 | 24 December 2015 |
|---|---|---|
| Fair value per share option | £0.4468 | £0.4238 |
| Share price | £1.625 | £1.660 |
| Exercise price | £1.625 | £1.660 |
| Volatility | 28% | 27% |
| Expected life | 5 years | 5 years |
| Expected dividends | 0% | 0% |
| Risk free rate | 1.52% | 1.29% |

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

Based on the calculation of the total fair value of the options granted, the Company recognised a total charge through the income statement of £550,000 related to equity-settled share-based payment transactions in the year ended 31 December 2017 (2016: £331,000).

## 31. Share-based payments continued

### *Unapproved Executive Share Option Scheme 2007*

The Unapproved Executive Share Option Scheme 2007 is an unapproved equity-settled share option scheme for the benefit of employees. Grants are made at the discretion of the Board of Directors, or an authorised committee thereof.

Options are forfeited (even if already vested) if the employee ceases employment with the Company and can only be exercised upon a sale, listing or the passing of a resolution for the voluntary winding-up of the Company or making of an order for the compulsory winding up of the Company. The employee retains the options vested at the time of the cessation of the employee's employment for a six month period. The movement on options in issue under these schemes is set out below:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price** | Number of share options | Weighted average exercise price |
| Outstanding at the beginning and end of the year | **1,000,000** | **£0.01** | 1,000,000 | £0.01 |
| Vested at the end of the year | **1,000,000** | | 1,000,000 | |
| Exercisable at the end of the year | **1,000,000** | | 1,000,000 | |

Based on the calculation of the total fair value of the options granted, the Company recognised a total charge through the income statement of £nil related to equity-settled share-based payment transactions in the year ended 31 December 2017 (2016: £nil).

At 31 December 2017, the following unexercised share options to acquire Ordinary Shares were outstanding:

| Year of grant | Exercise period | Exercise price per share | **2017 No.** | 2016 No. |
|---|---|---|---|---|
| 2009 | 31/01/2009 – 30/12/2019 | £0.01 | **1,000,000** | 1,000,000 |

The weighted average remaining life was two years (2016: three years).

### *Unapproved Executive Share Option Agreement made with Rolf Stahel*

On 18 April 2014, an award of share options was made to Rolf Stahel under a separate option agreement. The award comprised options over 1,260,000 Ordinary Shares. The exercise of the options is linked to the timing of the Admission which has given rise to an exercise price of £1.60 per share. The option becomes exercisable in respect of one thirty-sixth of the options one month from the date of the share option agreement and on the same date in each subsequent calendar month over one thirty-sixth of the options.

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price** | Number of share options | Weighted average exercise price |
| Outstanding at the beginning of the year | **1,260,000** | **£1.60** | 1,260,000 | £1.60 |
| Granted during the year | **–** | **–** | – | – |
| Outstanding at the end of the year | **1,260,000** | **£1.60** | 1,260,000 | £1.60 |
| Vested at the end of the year | **1,260,000** | | 1,120,000 | |
| Exercisable at the end of the year | **1,260,000** | | 1,120,000 | |

All of the total amount of options awarded have vested by 31 December 2017, representing 1,260,000 shares at an exercise price of £1.60. All unexercised options carry an exercise price of £1.60. The awards have a 10 year contractual life.

At 31 December 2017, the following unexercised share options to acquire Ordinary Shares were outstanding:

| Year of grant | Exercise period | Exercise price per share | **2017 No.** | 2016 No. |
|---|---|---|---|---|
| 2014 | 18/04/2014 – 17/04/2024 | £1.60 | **1,260,000** | 1,260,000 |

The weighted average remaining life was six years and four months (2016: seven years and four months).

The options were valued using a Black-Scholes option pricing model, using the following inputs:

| Award date | 18 April 2014 |
|---|---|
| Fair value per share option | £0.4779 |
| Share price | £1.60 |
| Exercise price | £1.60 |
| Volatility | 30% |
| Expected life | 5 years |
| Expected dividends | 0% |
| Risk free rate | 1.91% |

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

Based on the calculation of the total fair value of the options granted, the share-based remuneration expense in respect of equity-settled schemes is an amount of £4,000 (2016: £67,000). There are no outstanding liabilities.

### Non-dilutive share options

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

At 31 December 2017, the following unexercised share options to acquire Ordinary Shares were outstanding:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price** | Number of share options | Weighted average exercise price |
| Outstanding at the beginning of the year | **602,940** | **£0.01** | 352,940 | £0.01 |
| Granted during the year | **–** | **–** | 250,000 | £0.01 |
| Outstanding at the end of the year | **602,940** | **£0.01** | 602,940 | £0.01 |
| Vested at the end of the year | **552,940** | | 427,940 | |
| Exercisable at the end of the year | **552,940** | | 427,940 | |

The options were valued using a Black-Scholes option pricing model, using the following inputs:

| Award date | 30 November 2016 | 30 November 2016 | 30 November 2016 | 30 November 2016 |
|---|---|---|---|---|
| Fair value per share option | £1.3884 | £1.3746 | £1.39 | £1.3761 |
| Share price | £1.40 | £1.40 | £1.40 | £1.40 |
| Exercise price | £0.01 | £0.01 | £0.01 | £0.01 |
| Volatility | 26.5% | 26.5% | n/a | 26.5% |
| Expected life | 0.1 years | 1.1 years | 0 years | 1 year |
| Expected dividends | 1.0% | 1.0% | n/a | 1.0% |
| Risk free rate | 0.2% | 0.11% | n/a | 0.11% |

| Award date | 20 July 2015 | 20 July 2015 |
|---|---|---|
| Fair value per share option | £1.74 | £1.7226 |
| Share price | £1.75 | £1.75 |
| Exercise price | £0.01 | £0.01 |
| Volatility | n/a | 23.4% |
| Expected life | 0 years | 1 year |
| Expected dividends | n/a | 1.0% |
| Risk free rate | n/a | 0.5% |

## 31. Share-based payments continued

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

Based on the calculation of the total fair value of the options granted, the Company recognised a total charge through the income statement of £175,000 related to equity-settled share-based payment transactions in the year ended 31 December 2017 (2016 restated: £339,000).

At 31 December 2017, the following unexercised share options to acquire Ordinary Shares were outstanding:

| Year of grant | Exercise period | Exercise price per share | **2017 No.** | 2016 No. |
|---|---|---|---|---|
| 2015 | 20/07/2015 - 19/07/2025 | £0.01 | **176,470** | 176,470 |
| 2015 | 20/07/2016 - 19/07/2025 | £0.01 | **176,470** | 176,470 |
| 2016 | 30/11/2016 - 29/11/2026 | £0.01 | **75,000** | 75,000 |
| 2016 | 30/11/2017 - 29/11/2026 | £0.01 | **75,000** | 75,000 |
| 2016 | 11/01/2017 - 29/11/2026 | £0.01 | **50,000** | 50,000 |
| 2016 | 11/01/2018 – 29/11/2026 | £0.01 | **50,000** | 50,000 |

The weighted average remaining life was nine years and one month (2016: eight years and one month).

### Deferred consideration for acquisitions

The terms of the acquisitions of PSR Group BV and European Pharminvent Services s.r.o. (now PrimeVigilance s.r.o.) included provisions for deferred consideration payable in cash and in equity. Where that deferred consideration is contingent upon the continued employment of the vendors, in accordance with IFRS 3, a charge through the income statement arises. The element that is repayable in equity and that is contingent on the continued employment of the vendors is included as part of share-based payments in accordance with IFRS 2. A charge of £304,000 arises in the year ended 31 December 2017 (2016 re-stated: £140,000).

The element that is repayable in cash and that is contingent on the continued employment of the vendors is charged separately to the income statement and is shown a deferred consideration for acquisitions expense (note 7).

## 32. Financial instruments

### *Capital risk management*

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

### *Significant accounting policies*

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 1.

### Financial instruments carried at fair value by valuation method

The tables below analyse financial instruments carried at fair value and at contractual amount. The valuation method was Level 3, being where inputs for the liability that are not based on observable market data (i.e. unobservable inputs).

### *Group*

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Fair value Level 3 £000s** | **Contractual amount £000s** | Fair value Level 3 £000s | Contractual amount £000s |
| Due within one year | | | | |
| Deferred consideration | **1,957** | **4,000** | – | – |
| Due after one year | | | | |
| Deferred consideration | **9,804** | **17,330** | 7,772 | 20,453 |
| | **11,761** | **21,330** | 7,772 | 20,453 |

### *Company*

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Fair value Level 3 £000s** | **Contractual amount £000s** | Fair value Level 3 £000s | Contractual amount £000s |
| Due within one year | | | | |
| Deferred consideration | **1,957** | **4,000** | – | – |
| Due after one year | | | | |
| Deferred consideration | **9,804** | **17,330** | 7,772 | 20,453 |
| | **11,761** | **21,330** | 7,772 | 20,453 |

Movements in level 3 liabilities were as follows:

| | Group £000s | Company £000s |
|---|---|---|
| **Cost** | | |
| At 1 January 2016 | – | – |
| Arising on acquisition | 7,495 | 7,495 |
| Finance charge | 272 | 272 |
| Translation movement | 5 | 5 |
| At 31 December 2016 | 7,772 | 7,772 |
| Arising on acquisition | 1,109 | 1,109 |
| Finance charge | 581 | 581 |
| Amounts settled | (585) | (585) |
| Revaluation | 2,875 | 2,875 |
| Translation movement | 9 | 9 |
| **At 31 December 2017** | **11,761** | **11,761** |

### *Categories of financial instruments*

The Company's financial assets held for managing liquidity risk, being loans and receivables, which are considered to be readily saleable or are expected to generate cash inflows to meet cash outflows on financial liabilities within six months.

### *Group*

| **31 December 2017** | **Financial instruments at fair value through profit and loss £000s** | **Loans and receivables £000s** | **Current financial liabilities at amortised cost £000s** | **Current financial liabilities at fair value through profit and loss £000s** | **Non-current financial liabilities at fair value through profit and loss £000s** | **Non-current financial liabilities at amortised cost £000s** | **Carrying amount £000s** | **Fair value £000s** |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Investments | **709** | **–** | **–** | **–** | **–** | **–** | **709** | **709** |
| Trade receivables | **–** | **13,390** | **–** | **–** | **–** | **–** | **13,390** | **13,390** |
| Other receivables | **–** | **282** | **–** | **–** | **–** | **–** | **282** | **282** |
| Accrued income | **–** | **1,884** | **–** | **–** | **–** | **–** | **1,884** | **1,884** |
| Cash and cash equivalents | **–** | **3,218** | **–** | **–** | **–** | **–** | **3,218** | **3,218** |
| | **709** | **18,774** | **–** | **–** | **–** | **–** | **19,483** | **19,483** |
| **Financial liabilities** | | | | | **–** | **–** | | |
| Finance leases | **–** | **–** | **12** | **–** | **–** | **6** | **18** | **18** |
| Trade creditors | **–** | **–** | **4,942** | **–** | **–** | **–** | **4,942** | **4,942** |
| Amounts payable to related parties | **–** | **–** | **418** | **–** | **–** | **–** | **418** | **418** |
| Other payables | **–** | **–** | **1,186** | **–** | **–** | **–** | **1,186** | **1,186** |
| Customer advances | **–** | **–** | **751** | **–** | **–** | **–** | **751** | **751** |
| Accruals | **–** | **–** | **2,307** | **–** | **–** | **–** | **2,307** | **2,307** |
| Deferred consideration | **–** | **–** | **–** | **1,957** | **9,804** | **–** | **11,761** | **11,761** |
| | **–** | **–** | **9,616** | **1,957** | **9,804** | **6** | **21,383** | **21,383** |

## 32. Financial instruments continued

| 31 December 2016 | Financial instruments at fair value through profit and loss £000s | Loans and receivables £000s | Current financial liabilities at amortised cost £000s | Non-current financial liabilities at fair value through profit and loss £000s | Non-current financial liabilities at amortised cost £000s | Carrying amount £000s | Fair value £000s |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Investments | 228 | – | – | – | – | 228 | 228 |
| Trade receivables | – | 9,540 | – | – | – | 9,540 | 9,540 |
| Other receivables | – | 198 | – | – | – | 198 | 198 |
| Accrued income | – | 2,233 | – | – | – | 2,233 | 2,233 |
| Cash and cash equivalents | – | 4,424 | – | – | – | 4,424 | 4,424 |
| | 228 | 16,395 | – | – | – | 16,623 | 16,623 |
| **Financial liabilities** | | | | | | | |
| Finance leases | – | – | 3 | – | 5 | 8 | 8 |
| Trade creditors | – | – | 3,037 | – | – | 3,037 | 3,037 |
| Amounts payable to related parties | – | – | 49 | – | – | 49 | 49 |
| Other payables | – | – | 600 | – | – | 600 | 600 |
| Accruals | – | – | 2,759 | – | – | 2,759 | 2,759 |
| Deferred consideration | – | – | – | 7,772 | – | 7,772 | 7,772 |
| | – | – | 6,448 | 7,772 | 5 | 14,225 | 14,225 |

***Company***

| **31 December 2017** | **Financial instruments at fair value through profit and loss £000s** | **Loans and receivables £000s** | **Current financial liabilities at amortised cost £000s** | **Current financial liabilities at fair value through profit and loss £000s** | **Non-current financial liabilities at fair value through profit and loss £000s** | **Carrying amount £000s** | **Fair value £000s** |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Investments | **709** | **–** | **–** | **–** | **–** | **709** | **709** |
| Trade receivables | **–** | **6,743** | **–** | **–** | **–** | **6,743** | **6,743** |
| Amounts receivable from Group companies | **–** | **6,714** | **–** | **–** | **–** | **6,714** | **6,714** |
| Other receivables | **–** | **76** | **–** | **–** | **–** | **76** | **76** |
| Accrued income | **–** | **831** | **–** | **–** | **–** | **831** | **831** |
| Cash and cash equivalents | **–** | **288** | **–** | **–** | **–** | **288** | **288** |
| | **709** | **14,652** | **–** | **–** | **–** | **15,361** | **15,361** |
| **Financial liabilities** | | | | | | | |
| Trade creditors | **–** | **–** | **2,541** | **–** | **–** | **2,541** | **2,541** |
| Amounts payable to related parties | **–** | **–** | **401** | **–** | **–** | **401** | **401** |
| Amounts payable to Group companies | **–** | **–** | **7,163** | **–** | **–** | **7,163** | **7,163** |
| Other payables | **–** | **–** | **417** | **–** | **–** | **417** | **417** |
| Accruals | **–** | **–** | **1,374** | **–** | **–** | **1,374** | **1,374** |
| Deferred consideration | **–** | **–** | **–** | **1,957** | **9,804** | **11,761** | **11,761** |
| | **–** | **–** | **11,896** | **1,957** | **9,804** | **23,657** | **23,657** |

| 31 December 2016 | Financial instruments at fair value through profit and loss £000s | Loans and receivables £000s | Current financial liabilities at amortised cost £000s | Non-current financial liabilities at fair value through profit and loss £000s | Carrying amount £000s | Fair value £000s |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Investments | 228 | – | – | – | 228 | 228 |
| Trade receivables | – | 5,117 | – | – | 5,117 | 5,117 |
| Amounts receivable from Group companies | – | 3,963 | – | – | 3,963 | 3,963 |
| Other receivables | – | 54 | – | – | 54 | 54 |
| Accrued income | – | 1,366 | – | – | 1,366 | 1,366 |
| Cash and cash equivalents | – | 930 | – | – | 930 | 930 |
| | 228 | 11,430 | – | – | 11,658 | 11,658 |
| **Financial liabilities** | | | | | | |
| Trade creditors | – | – | 1,754 | – | 1,754 | 1,754 |
| Amounts payable to related parties | – | – | 42 | – | 42 | 42 |
| Amounts payable to Group companies | – | – | 3,502 | – | 3,502 | 3,502 |
| Other payables | – | – | 69 | – | 69 | 69 |
| Accruals | – | – | 2,074 | – | 2,074 | 2,074 |
| Deferred consideration | – | – | – | 7,772 | 7,772 | 7,772 |
| | – | – | 7,441 | 7,772 | 15,213 | 15,213 |

The Group's financial assets held for managing liquidity risk, being loans and receivables, are considered to be readily saleable or are expected to generate cash inflows to meet cash outflows on financial liabilities within six months.

### *Financial risk management objectives*

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

### *Market risk*

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

### *Foreign currency risk management*

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by natural hedging in currency accounts. The carrying amounts of the Group's financial assets and financial liabilities by currency at the reporting date are as follows:

#### Financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| GBP | **2,356** | 2,487 | **3,877** | 2,504 |
| Euro | **8,214** | 6,396 | **6,771** | 5,997 |
| USD | **6,914** | 5,797 | **3,857** | 2,858 |
| Other | **1,999** | 1,943 | **762** | 299 |
| | **19,483** | 16,623 | **15,267** | 11,658 |

#### Financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| GBP | **12,288** | 9,026 | **15,170** | 8,586 |
| Euro | **4,554** | 4,032 | **8,008** | 6,295 |
| USD | **2,788** | 170 | **669** | 179 |
| Other | **1,753** | 997 | **731** | 153 |
| | **21,383** | 14,225 | **24,578** | 15,213 |

## 32. Financial instruments continued

### *Foreign currency sensitivity analysis*

The Group is mainly exposed to the GBP currency, Euro currency and the US Dollar currency.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling, being the reporting currency, against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated financial assets and liabilities and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity and a negative number indicates a decrease in profit and other equity.

***2017***

| | Group | | Company | |
|---|---|---|---|---|
| | **Strengthen +10% £000s** | **Weaken -10% £000s** | **Strengthen +10% £000s** | **Weaken -10% £000s** |
| Euro | **(333)** | **407** | **112** | **(137)** |
| USD | **(375)** | **459** | **(289)** | **354** |
| Other | **(22)** | **27** | **(3)** | **3** |
| | **(730)** | **893** | **(180)** | **220** |

***2016***

| | Group | | Company | |
|---|---|---|---|---|
| | Strengthen +10% £000s | Weaken -10% £000s | Strengthen +10% £000s | Weaken -10% £000s |
| Euro | (215) | 263 | 27 | (33) |
| USD | (511) | 625 | (243) | 298 |
| Other | (86) | 105 | (13) | 16 |
| | (812) | 993 | (229) | 281 |

### *Interest rate risk management*

The Group and the Company are exposed to the interest rate risks associated with its holdings of cash and cash equivalents and short term deposits and finance leases payable.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which regularly monitors the Group's short, medium and long term funding, and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash and cash equivalents and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The impact on profit and other comprehensive income due to interest rate exposure is not considered significant, and no interest rate sensitivity has been performed.

### *Credit risk management*

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

Trade receivables consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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

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

***Liquidity and interest risk tables***

The Group and the Company has no significant long term financial liabilities.

***Fair value estimation***

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of long term trade receivables and payables is estimated by discounting the future contractual cash flows at the current market interest rate for the underlying currency of the transaction.

***Fair value measurements***

The financial instruments measured subsequent to initial recognition at fair value comprise investments. The fair value hierarchy of these assets is Level 2. The valuation technique is market value, based on the most recent investment price. The Group and the Company did not have any other financial instruments that are measured subsequent to initial recognition at fair value. An analysis of the fair value hierarchy has therefore not been presented.

## 33. Acquisition of subsidiary – Haemostatix

On 24 May 2016, Ergomed plc acquired 100% of the issued share capital of Haemostatix Limited ('Haemostatix'), a research and development company based in Nottingham, UK developing novel products for the surgical bleeding market. The acquisition of Haemostatix enhances Ergomed's portfolio of development products with the potential to generate significant shareholder value.

Goodwill in relation to the acquisition of Haemostatix was increased by £57,000 during the period, following a re-assessment of the deferred tax asset arising on the transaction during the measurement period, which ended on 23 May 2017.

The adjustment to the amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | Fair valuation £000s | Fair value adjustments £000s | Final valuation £000s |
|---|---|---|---|
| Intangible assets | 15,200 | – | 15,200 |
| Property, plant and equipment | 4 | – | 4 |
| Deferred tax asset | 1,015 | (57) | 958 |
| Total non-current assets | 16,219 | (57) | 16,162 |
| Trade and other receivables | 164 | – | 164 |
| Other assets | 45 | – | 45 |
| Cash and equivalents | 63 | – | 63 |
| Current assets | 272 | – | 272 |
| Trade and other payables | (1,365) | – | (1,365) |
| Deferred tax liability | (2,736) | – | (2,736) |
| Financial liabilities | (4,101) | – | (4,101) |
| Total identifiable net assets | 12,390 | (57) | 12,333 |
| Goodwill | 2,086 | 57 | 2,143 |
| Total consideration | 14,476 | – | 14,476 |
| **Satisfied by:** | | | |
| Cash | 800 | – | 800 |
| Equity | 6,181 | – | 6,181 |
| Deferred consideration | 7,495 | – | 7,495 |
| Total consideration | 14,476 | – | 14,476 |
| **Net cash outflow arising on acquisition** | | | |
| Cash consideration | 800 | – | 800 |
| Less: cash and cash equivalent balances acquired | (63) | – | (63) |
| Transaction expenses | 370 | – | 370 |
| | 1,107 | – | 1,107 |

## 34. Acquisition of subsidiary – PSR Group BV

On 2 October 2017, Ergomed plc acquired 100% of the issued share capital of PSR Group BV, a full service specialist orphan drug CRO, based in Amsterdam, Netherlands. The acquisition of PSR enhances Ergomed's ability in running complex orphan drug development programs. The amounts provisionally recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

The amounts provisionally recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | Book values £000s | Fair value adjustments £000s | Final valuation £000s |
|---|---|---|---|
| Intangible assets | – | 700 | 700 |
| Property, plant and equipment | 32 | – | 32 |
| Total non-current assets | 32 | 700 | 732 |
| Trade and other receivables | 879 | – | 879 |
| Cash and equivalents | 812 | – | 812 |
| Current assets | 1,691 | – | 1,691 |
| Trade and other payables | (1,060) | – | (1,060) |
| Tax payable | (74) | – | (74) |
| Deferred tax liability | – | (175) | (175) |
| Financial liabilities | (1,134) | (175) | (1,309) |
| Total identifiable net assets | 589 | 525 | 1,114 |
| Goodwill | 3,060 | (525) | 2,535 |
| Total consideration | 3,649 | – | 3,649 |
| **Satisfied by:** | | | |
| Cash | 1,982 | – | 1,982 |
| Equity | 558 | – | 558 |
| Deferred consideration | 1,109 | – | 1,109 |
| Total consideration | 3,649 | – | 3,649 |
| **Net cash outflow arising on acquisition** | | | |
| Cash consideration | 1,982 | – | 1,982 |
| Less: cash and cash equivalent balances acquired | (812) | – | (812) |
| Payments in to escrow | 558 | – | 558 |
| Transaction expenses | 218 | – | 218 |
| | 1,946 | – | 1,946 |

The provisional fair value of intangible assets relates to Customer Relationships of £162,000, Orders Backlog of £189,000 and the Trade Name of £349,000. The provisional fair value of the financial assets includes receivables with a fair value of £879,000 and a gross contractual value of £879,000. The best estimate at acquisition date of the contractual cash flows not to be collected is £nil.

Goodwill is provisionally valued at £2,535,000. None of the goodwill is expected to be deductible for income tax purposes. Deferred consideration represents the provisional fair valuation of the additional consideration payable which could be between £nil and an aggregate maximum undiscounted amount of £2,806,000, subject to the future performance of the business.

Ergomed plc has a 12 month measurement period from the date of acquisition, and therefore the measurement period ends on 1 October 2018.

PSR contributed revenues of £977,000 and profit before tax of £38,000 to the results of the group for the year. If the acquisition of PSR had been completed on the first day of the financial year, group revenues for the year ended 31 December 2017 would have been £3,302,000 higher and group profit before tax would have been £309,000 higher.

## 35. Financial commitments

At 31 December 2017 the Group was committed to making the following payments under non-cancellable operating leases which fall due as follows:

***Group***

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Within one year | **847** | 663 | **161** | 128 |
| Between two and five years | **2,105** | 459 | **266** | 185 |
| | **2,952** | 1,122 | **427** | 313 |

At 31 December 2017 the Company was committed to making the following payments under non-cancellable operating leases which fall due as follows:

***Company***

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2017 £000s** | 2016 £000s | **2017 £000s** | 2016 £000s |
| Within one year | **54** | 35 | **–** | 4 |

## 36. Pension costs

The Group makes contributions to defined contribution personal pension schemes of the employees. The pension cost represents contributions payable by the Group to the schemes and amounted to £323,000 (2016: £182,000). Contributions payable to the schemes at 31 December 2017 were £185,000 (2016: £193,000).

The Company makes contributions to defined contribution personal pension schemes of the employees. The pension cost represents contributions payable by the Company to the schemes and amounted to £57,000 (2016: £43,000). Contributions payable to the schemes at 31 December 2017 were £nil (2016: £25,000).

## 37. Related party transactions

Ergomed d.o.o., a company registered in Croatia, is under the control of Miroslav Reljanovic, who is a Director and shareholder of the Company. During the year the Company and its subsidiaries were charged £266,000 (2016: £240,000) by Ergomed d.o.o. and its subsidiaries in respect of clinical research costs and other administrative services. At 31 December 2017 a balance of £40,000 was owed by the Company and its subsidiaries to Ergomed d.o.o. and its subsidiaries in respect of these costs (2016: £37,000). In addition, during 2016, the Group sold medical equipment to a subsidiary of Ergomed d.o.o. for £33,000. There were no such sales in 2017.

Chesyl Pharma Limited is a company owned by Rolf Stahel, who was a Director and shareholder of the Company. During the year, the Company was charged consultancy fees of £15,000 (2016: £52,000) in relation to the services of Rolf Stahel, included in the remuneration paid to Rolf Stahel. At 31 December 2017, amounts payable to Chesyl Pharma in relation to such consultancy services and associated expenses were £nil (2016: £12,000).

Under the terms of the acquisition of European PharmInvent Services s.r.o. (now PrimeVigilance s.r.o.), Dr Jan Petracek, who was a shareholder of that company and became a Director during the year and is a shareholder of the Company, was entitled to deferred consideration. During the year £472,000 was charged to the income statement in relation to this deferred consideration and was payable in cash and equity at 31 December 2017.

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

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

## 38. EBITDA and EBITDA (adjusted)

| | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|
| **Operating (loss)/profit** | **(3,904)** | 49 |
| Adjust for: | | |
| Depreciation and amortisation charges within Other administrative expenses | **459** | 256 |
| Amortisation of acquired fair valued intangible assets | **1,167** | 771 |
| **EBITDA** | **(2,278)** | 1,076 |
| Share-based payment charge | **1,033** | 877 |
| Deferred consideration for acquisitions expense | **752** | 550 |
| Revaluation of deferred consideration for acquisition | **2,875** | – |
| Write-back of deferred consideration for acquisition | **–** | (460) |
| Acquisition costs | **259** | 584 |
| Exceptional items | **143** | 177 |
| **EBITDA (adjusted)** | **2,784** | 2,804 |

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

Deferred consideration for acquisitions expense relates to the cash component of deferred consideration which is payable contingent on the continued employment of the vendors (note 7). These costs, together with acquisition costs and exceptional items, are all cash costs but are not considered trading items and therefore not included in adjusted EBITDA.

## 39. Adjusted earnings per share

| | 2017 £000s | 2016 Re-stated £000s |
|---|---|---|
| Loss for the purposes of basic earnings per share being net profit attributable to owners of the Company | **(4,504)** | (70) |
| Loss for the purposes of diluted earnings per share | **(4,504)** | (70) |
| Adjust for: | | |
| Amortisation of acquired fair valued intangible assets | **1,167** | 771 |
| Share-based payment charge | **1,033** | 877 |
| Deferred consideration for acquisitions expense | **752** | 550 |
| Revaluation of deferred consideration for acquisition | **2,875** | – |
| Write-back of deferred consideration for acquisition | **–** | (460) |
| Acquisition costs | **259** | 584 |
| Exceptional items | **143** | 177 |
| **Adjusted earnings for the purposes of diluted earnings per share** | **1,725** | 2,429 |
| **Adjusted earnings per share** | | |
| Basic | **4.2p** | 6.8p |
| Diluted | **4.0p** | 6.6p |

## 40. Subsequent events

On 1 February 2018, the Company completed a placing whereby 2,029,971 ordinary shares of 1p each were issued at a price of £1.90 per share.

# NOTES

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