ERGOMED

TRANSFORMING DRUG DEVELOPMENT

Annual Report and Accounts 2018

ERGOMED PROVIDES SPECIALISED SERVICES TO THE PHARMACEUTICAL INDUSTRY

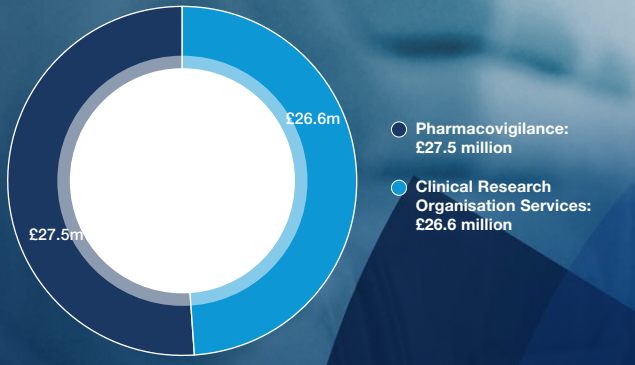
Our offering spans all phases of clinical development, post-approval pharmacovigilance and medical information services.

Ergomed's fast-growing, profitable services business includes a comprehensive suite of specialist pharmacovigilance solutions and a full range of high-quality clinical research and trial management services, with a focus on orphan drug development.

For further information, visit:
www.ergomedplc.com

In this Annual Report, "Ergomed", the Group, we, us and our refer to Ergomed plc and its consolidated subsidiaries. The parent company Ergomed plc, is referred to as Ergomed plc or the " Company".

Total Revenue



CONTINUED GROWTH

Financial Highlights

As reported

Revenue	EBITDA (adjusted)[1]	EBITDA (unadjusted)	Contracted Order Backlog
£54.1m	£2.3m	£(7.9)m	£109.2m
+13%	-£0.5m	-£5.6m	+21%

Under IAS 18[2]

Revenue	EBITDA (adjusted)[1]	EBITDA (unadjusted)	Contracted Order Backlog
£54.9m	£3.1m	£(7.1)m	£106.1m
+15%	+£0.3m	-£4.8m	+20%

- Revenue of £54.1 million, equivalent to £54.9 million under IAS 18, increased by 15% on a comparable basis (2017: £47.6 million)
- Pharmacovigilance revenue growth of 23% to £27.5 million (2017: £22.5 million)
- EBITDA (adjusted)[1] was £2.3 million (2017: £2.8 million) equivalent to £3.1 million on a comparable basis, representing growth of 11%
- Unadjusted EBITDA loss of £7.9 million, which is £7.1 million on an IAS 18 equivalent (2017: loss of £2.3 million) after a £6.8 million charge including the full impairment of the Haemostatix business
- Cost reduction programme implemented H2 2018; expected to provide approximately £4.0 million improvement in profitability on annualised basis
- Significant turnaround in profitability in second half with H2 2018 adjusted EBITDA of £2.7 million vs H1 2018 £(0.4) million
- Haemostatix assets fully impaired in line with continued focus on services businesses
- Institutional placing raising gross proceeds of £3.8 million for potential acquisitions, capital expenditure and working capital (February 2018)
- Cash and cash equivalents of £5.2 million as at 31 December 2018 (2017: £3.2 million)
- New contracts won in 2018 up 34% with a contract value of £72.5 million (2017: £54.2 million)
- Strong backlog of £109 million contracted revenue as of 1 January 2019 (1 January 2018: £88.2 million)

Operational and other highlights, including post year-end

- Orphan drug development strategy gaining momentum – 37% of new business won in our Clinical Research Organisation (CRO) Services business was for orphan drugs
- Established pharmacoepidemiology service as part of pharmacovigilance offering, establishing another premium service
- Acquisition of two bolt-on UK pharmacovigilance service providers; Harefield Pharmacovigilance Limited and Pharmacovigilance Services Limited
- Asarina Pharma AB, a co-development partner, completed a public offering and listing on the Nasdaq First North exchange
- Michael Spiteri appointed Non-Executive Director to help drive digitization and automation strategy
- Dr Miroslav Reljanović elected as Executive Chairman

Notes:

1. EBITDA (adjusted) and adjusted EPS are alternative performance measures (see page 19). Adjustments are made to EBITDA for share-based payment charge, deferred consideration for acquisitions relating to post acquisition remuneration, revaluation of contingent consideration for acquisition, acquisition costs and exceptional items.
2. IAS 18 (Revenue Recognition) was the accounting standard applicable to the Group's revenue recognition policy prior to the adoption of IFRS 15 (Revenue from Contracts with Customers) Refer to note 1 on page 48.

WE ASSIST OUR CLIENTS
BY PROVIDING FULL-SERVICE SOLUTIONS

What we do

Ergomed offers a comprehensive suite of specialised services to the pharmaceutical industry. In our Clinical Research Organisation (CRO) Services division, we undertake on behalf of our clients all facets of clinical trial management from Phase I to IV. In our Pharmacovigilance division we provide a full range of services related to patient safety, including case management, signal management, risk management, pharmacoepidemiology, audits, services of qualified persons for pharmacovigilance, training, strategic advisory, literature searches and medical information.

180+ active clients

600+ studies completed

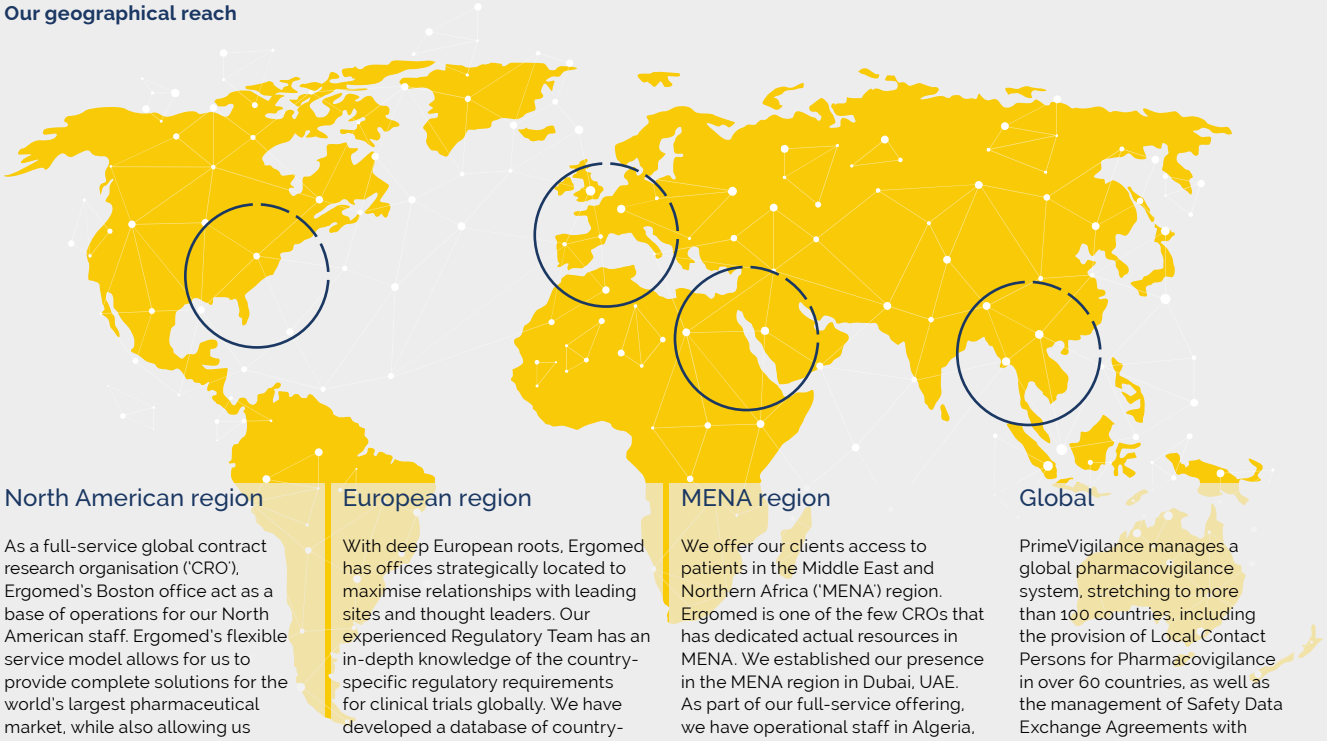
150,000 patients studied

53 countries with active clinical trials

700+ employees

150,000+ adverse event cases processed p.a.

Our geographical reach



North American region

As a full-service global contract research organisation ('CRO'), Ergomed's Boston office act as a base of operations for our North American staff. Ergomed's flexible service model allows for us to provide complete solutions for the world's largest pharmaceutical market, while also allowing us to assist North American based companies complete trials in their quest to develop therapies across the globe. As well as pharmacovigilance management and commercial staff, PrimeVigilance has a call centre based in the Boston office serving North and South America for medical information services, thus providing a platform for intake of adverse event reports and product complaints.

European region

With deep European roots, Ergomed has offices strategically located to maximise relationships with leading sites and thought leaders. Our experienced Regulatory Team has an in-depth knowledge of the country-specific regulatory requirements for clinical trials globally. We have developed a database of country-specific requirements, allowing us to forecast start-up timelines confidently as well as pre-empt any potential challenges with study approvals. PrimeVigilance is headquartered in the UK, with EU operational hubs in Croatia, Czech Republic, Germany and Serbia, providing quality services, while reducing overheads. We also employ key opinion leaders and former regulators with a deep understanding of pharmacovigilance. We are also the leading provider of EU Qualified Persons responsible for Pharmacovigilance, who fulfil specific responsibilities laid down in EU regulation.

MENA region

We offer our clients access to patients in the Middle East and Northern Africa ('MENA') region. Ergomed is one of the few CROs that has dedicated actual resources in MENA. We established our presence in the MENA region in Dubai, UAE. As part of our full-service offering, we have operational staff in Algeria, Morocco, Egypt, Iran, Lebanon, Turkey, Oman, United Arab Emirates and Saudi Arabia, In addition we have staff in South Africa.

Asia-Pacific region

The Asia-Pacific region represents one of the fastest growing regions in the clinical research industry. Ergomed is expanding our full-service offering to serve this region, which will allow it to offer our clients complete solutions for their unique needs.

Global

PrimeVigilance manages a global pharmacovigilance system, stretching to more than 100 countries, including the provision of Local Contact Persons for Pharmacovigilance in over 60 countries, as well as the management of Safety Data Exchange Agreements with our clients' global Affiliate and Distribution networks. We are responsible for submitting safety reports to all Regulatory Authorities where our clients distribute their medicinal products. We are developing strategic collaborations globally with existing service providers and key opinion leaders, to ensure that we can provide depth of local expertise as well as operational solutions for specific language requirements to further enable global solutions for clients.

Our areas of operation

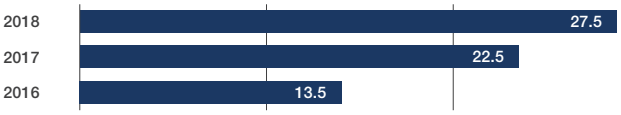
Pharmacovigilance

PrimeVigilance is a dedicated pharmacovigilance, regulatory and medical information service provider. Through its offices in the United Kingdom, United States and Europe, PrimeVigilance supports pharmaceutical, biotechnology and generics companies in managing the global safety of their products from early clinical trial development to full post-marketing activities.

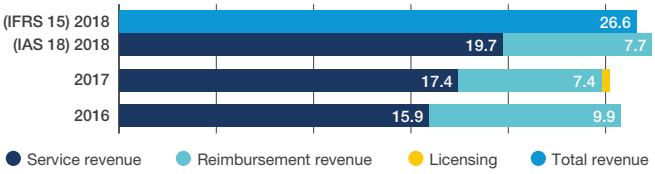
Clinical Research Organisation (CRO) Services

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

Pharmacovigilance sales £million



CRO Services sales £million



£72.5m **+34%**
new contracts won in 2018

£109.2m **+25%**
contractual backlog at year-end

Comprehensive range of services

	Pharmacovigilance		Clinical Research Services	
	Drug Safety	Medical Information	Phases I–III	Phase IV
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	●	●		

PHARMACOVIGILANCE

Overview

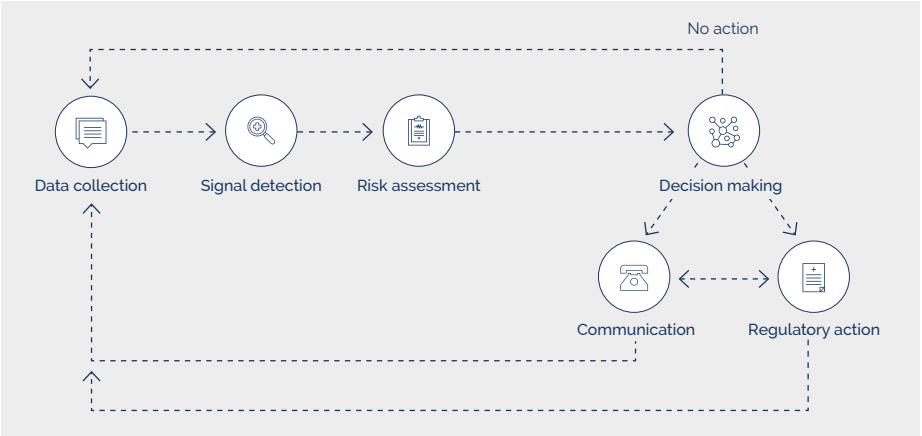
PrimeVigilance, our pharmacovigilance business, operates from bases in Guildford, UK; Zagreb, Croatia; Belgrade, Serbia; Prague, Czech Republic; Boston, USA; and Frankfurt, Germany. PrimeVigilance is currently providing services across more than 100 countries to a range of international pharma, generic 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.

PrimeVigilance aims

1. Patient safety through better and safer medicines
2. Support clients to comply with pharmacovigilance requirements globally

Essential pharmacovigilance processes all covered by PrimeVigilance



Pharmacovigilance value chain

Essential	Intermediate	Premium
Case processing	Signal management	Pharmacoepidemiology
Aggregate reports	Risk management	Additional risk minimisation
PSMF + SOPs + business continuity	EU QPPV Local QPPVs	PV referral procedures
Internal audits	External audits and inspections	Strategic consultancy

Expertise / experience

Technology / automation

PRIMEVIGILANCE

We have demonstrated exceptional client retention through our history and are on course to be a global leader in pharmacovigilance by 2020.

Our key differentiators – PrimeVigilance

- Led by industry experts and senior ex-regulators
- Global leader in QPPV services
- Database diagnostic, helping clients to choose the best safety database for their needs
- Pioneering in intelligent automation in pharmacovigilance
- Premium services support clients trust in moment of crisis

£27.5m
Revenue

450+
Employees

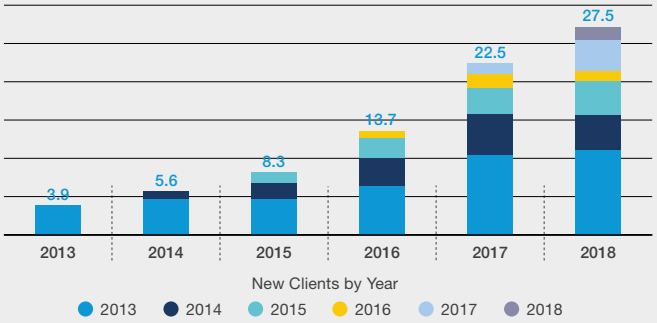
>23%
Growth in sales, majority new business won

130+
Customers

100+
Countries services marketed in

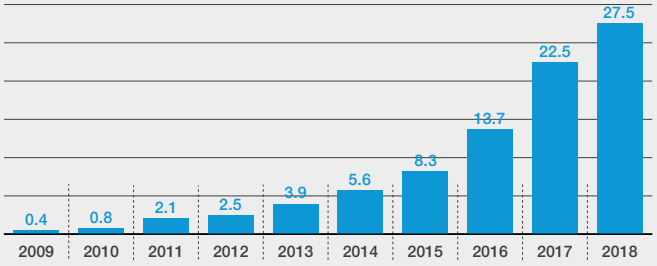
Exceptional client retention

Revenues by customer cohort (£m)



Consistent growth

Revenues (£m)



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 deep industry experience.

Fundamental to its medic-led approach, PrimeVigilance employs 47 physicians and over 300 pharmacists and other life sciences professionals.

PrimeVigilance has 21 in-house EU Qualified Persons for Pharmacovigilance (EU QPPV). The network of Local Qualified Persons is the most extensive worldwide and includes 200+ outsourced professionals covering over 60 countries.

We remain focused on growing both of our service offerings organically and through strategic acquisitions.

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 at the International Society of Pharmacovigilance seminar in the deployment of robotic process automation ('RPA') software in routine pharmacovigilance processes. In pilots, PrimeVigilance has been able to demonstrate promising 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

Overview

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

Ergomed offers a full-service clinical research organisation that provides a suite of services specifically designed and tested to match the needs of the most demanding development programmes. With experience in over 615 Phase I–IV trials, Ergomed has planned, managed, monitored and reported on clinical trials across a range of technologies that include small molecule drugs, monoclonal antibodies and other targeted agents as well as cancer vaccines, immunotherapies, radioactive agents, photodynamic therapies, device studies and Advanced Therapy Medicinal Program ('ATMP') (Gene and Stem Cell therapies).

CRO Service aims

To become the leading global contract research organisation for orphan drug development.

Service channels

Therapeutic expertise

Study experience is at the heart of what makes a CRO successful. We select investigative sites to create the best opportunities to maximise the clinical programmes and registries success.
As a full-service CRO, we offer complete solutions in all therapeutic areas, but we specialise in:

- Orphan Drug Development
- Oncology/Haematology
- Neurology/CNS
- Immunology/Respiratory

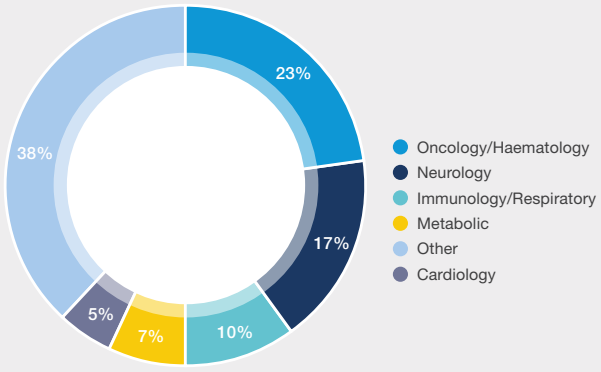
Orphan drug development

Orphan drug trials are not just smaller versions of drug trials, but are focused on rare disease, and have specific requirements. We focus on the rare disease patient, and how to make a positive impact on their lives.

Our orphan team is led by PSR Orphan Experts ('PSR'), Ergomed's rare disease subsidiary, acquired in 2017. PSR is one of the few companies exclusively focused on orphan disease drug development, and is recognised as a leading expert in assisting biotech and pharma companies in the rare disease niche. Through our site management model and expert study physician teams support, we find hard-to-locate patients around the globe and work with the investigative sites to ensure that the trials support both the patients as well as providing the highest quality data.

Therapeutic area expertise (number of trials)

Effective patient recruitment to reduce time and cost of clinical trials



PSR key strengths

Extensive experience
PSR successfully managed over 200 studies in the period 1997-2019, of which over 50% were in orphan indications. In addition, PSR has more than 50 regulatory projects.

True partnership
Creating a true partnership with dedication to rare disease patients and our clients, in order to make a positive impact on the lives of people with rare diseases, is what drives PSR and its team.

Dedicated
Both PSR's input on delivering new treatments for rare disease patients and our participation in fundraising activities exemplify our dedication to the rare disease field on a business as well as on a societal level.

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, we focus on patient recruitment with efficient management and control of complex trial protocols.

Orphan drug development

Orphan drug development is a growing area. The logistical, regulatory and operational complexities associated with orphan drug trials require specialised approaches. PSR's internationally recognised specialist expertise in orphan drug development, combined with Ergomed's site management organisation and study physician groups, is ideally suited for the efficient management of these types of trials.

Digital transformation

Information technology has the potential to deliver long-term operational efficiencies and upgrade our support capabilities. Our Pharmacovigilance business is already a significant investor in information technology and our clinical research business is well-placed to leverage this expertise and benefit from opportunities from digitization in clinical research services.

Clinical expertise: phase I–V

Through our 20 years of successful history, Ergomed has acquired significant experience in both pre-approval and post-approval trials.

Our proven service offering ensures that we can provide custom solutions to assist in recruiting patients on-time and on-budget. For Late Phase studies we have a dedicated team to support our real-world evidence and observational studies.

Phase I–III

- An innovative site management model designed to maximise site effectiveness and timelines
- Study Physician Support to increase communications and improve compliance at investigative sites
- Extensive development expertise through our dedicated medical teams and expert network
- A full-service offering to ensure a unified approach to trial execution

Real-world evidence and late phase research

- Extensive experience in providing a complete solution for this diverse group of studies
- Speed and quality, ensured by :
  - Protocol design expertise
  - Unique fit-for-purpose operational strategy plans
  - Tailored data collection and monitoring solutions
  - An approach where we shift the focus to the site and patient needs, ensuring their positive study experience and high quality data

Site support services

Our innovative approach to site management ensures effective patient recruitment, reducing the time and cost of clinical trials. Being a full-service provider, Ergomed is able to offer a complete solution for each studies' unique needs. The project management and clinical research associate teams form the core of the organisation, many of whom are MDs, PhDs or have other medical-related backgrounds and they assist in leading the organisation to ensure the success of the projects that we are involved in.

Operation

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 valuable patients

Hospital

- Investigator
- Nurses/Site Staff

DEVELOPMENTS AND PARTNERSHIPS

Our developments

Haemostatix

Haemostatix is developing a new class of peptide based coagulant or 'haemostat' for the control of bleeding in surgery.

Haemostatix was acquired in 2016 and had two products in development, PeproStat™ and ReadyFlow™.

PeproStat is a ready-to-use liquid formulation applied with commercially available gelatin sponges, which is ready for Phase III clinical trials. ReadyFlow is a ready-to-use flowable gel formulation applied with a syringe and nozzle to less accessible and/or uneven wound surfaces. ReadyFlow requires additional formulation development work prior to the initiation of clinical studies.

Ergomed has continued to make certain incremental investments in the Haemostatix products during 2018 including pre-clinical studies, clinical trial product manufacture and intellectual property protection to maintain readiness for Phase III clinical trials of the lead product, PeproStat. Ergomed's strategy, ahead of Phase III trials, is to continue with minimal investment whilst pursuing further development through co-investors and/or licensees of the individual products.

Negotiations with interested parties are progressing but they are not sufficiently advanced, nor providing sufficient certainty to support the carrying value of the Haemostatix assets, including the goodwill arising on acquisition. Consequently, the assets relating to Haemostatix have been fully impaired in 2018, resulting in an impairment charge of £18.2 million. The impact of the charge is partially offset by the write-back of contingent consideration of £11.6 million relating to the acquisition of Haemostatix.

Our partnerships

Through working with many healthcare companies over 20 years, Ergomed has gained considerable understanding of effective and cost-efficient development strategies.

Ergomed has previously entered into several co-development arrangements where the risk and expense of development is shared. Ergomed's co-development pipeline continues to offer potential upside as programmes progress but, in line with Ergomed's focus on services, We do not anticipate entering into new co-development arrangements.

Companies we partner with

Asarina Pharma

Sepranolone is the first therapy to target the underlying cause of PMDD, a severe and disabling form of premenstrual syndrome affecting approximately 5% of menstruating women.

During 2018, Asarina Pharma AB ('Asarina') completed a public offering and listing on the Nasdaq First North Exchange. Ergomed's holding at 31 December 2018 was valued at £0.9 million, representing approximately 2.4% of Asarina's issued share capital.

In 2019, we expect Asarina to report Phase II data on Sepranolone.

Cel-Sci

Multikine aims to treat advanced primary head and neck cancer. Ergomed and Cel-Sci are also collaborating on a Phase I study in peri-anal warts in HIV/HPV co-infected patients.

In 2019, we expect Cel-Sci to report Phase III data on Multikine.

Modus Therapeutics

Focused on innovative treatments for patients with sickle cell disease.

In 2019, we expect Modus Therapeutics AB to report Phase II data on sevuparin.

Allergy Therapeutics

In December 2017, Ergomed and Allergy Therapeutics plc entered into a multi-study co-development partnership to support three products in their OralVac platform.

Executive Chairman's Review

BUILDING ON OUR SERVICE STRATEGY

"2018 saw us continue to deliver strong top-line growth and work hard to deliver a significantly improved financial performance in the second half.

We are fully committed to our services strategy and confident in the opportunities for our pharmacovigilance business and in our orphan drug development emphasis. With our contracted backlog at more than £109 million and the full benefits of the 2018 cost reduction programme, we believe we are well positioned to build on these foundations."

Dr Miroslav Reljanović
Executive Chairman

Introduction

While Ergomed saw a number of challenges during 2018, particularly in the first half, the Company delivered continued strong top-line growth and, through the implementation of a cost reduction programme, a strong financial performance in the second half of the year.

Our Pharmacovigilance ('PV') business saw another year of strong progress with 23% revenue growth and was strengthened through technology development, senior hires and small bolt-on acquisitions.

In our Clinical Research Organisation ('CRO') Services business we consolidated our focus on orphan drug development utilising the PSR brand and believe our strategy is gaining traction, with 37% of the CRO new business won being orphan drug related.

We have worked hard to deliver significantly improved results in the second half of 2018. Based on our contracted backlog and re-aligned cost base, I am optimistic we can deliver our 2019 growth targets. We continue to execute our strategy of focusing on services, specifically on the opportunities in pharmacovigilance and orphan drug development. I look forward to further progress this year and in the future.

Strategy for growth

Demand for both pharmacovigilance and CRO segments remains generally buoyant. The Company continues to invest in line with its stated strategy to position itself as a market leader in the pharmacovigilance and orphan drug development sectors. These investments include the addition of project personnel across geographies, the investment in robotic process automation technology to deliver longer-term operational efficiencies and the upgrading of our support capabilities in terms of systems and personnel.

Pharmacovigilance ('PV')

The pharmacovigilance business performed strongly in 2018. During the year, the Company added specialist pharmacoepidemiology services to PrimeVigilance's offering and completed the acquisition of two bolt-on acquisitions; Harefield Pharmacovigilance Limited and Pharmacovigilance Services Limited. PrimeVigilance also built its network of internal and external Qualified Persons in Pharmacovigilance ('QPPV') consultants to over 200, covering over 60 countries.

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. As more processes are robotised, these improvements are expected to drive efficiency with greater case throughput at lower cost. PrimeVigilance's strategy of investing in people, premium services and technology is designed to drive further growth with the aim of becoming the global leader in pharmacovigilance. The global pharmacovigilance market is forecast to grow to more than $8 billion by 2024 from around $3 billion 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 2017.)

Clinical Research Services ('CRO')

During 2018, we consolidated our focus on orphan drug development under the PSR brand (acquired in October 2017), a specialist contract research organisation based in The Netherlands focused on the development of orphan drugs for rare diseases. Orphan drug development is a growing area of research, with up to 30 million people worldwide estimated to suffer from rare diseases (Source: Evaluate Pharma Orphan Drug Report 2018). The logistical, regulatory and operational complexities associated with orphan drug trials require specialised approaches. PSR's expertise, combined with Ergomed's site management organisation and study physician groups, is ideally suited for the efficient management of these types of trials.

Our strategy to focus on orphan drug development is gaining traction. This is evidenced by 37% of the CRO's new business won in 2018 being orphan drug related. While orphan trials tend, by the nature of the disease, to be smaller than comparable phase non-orphan trials, they also tend to be more complex and require specialist skills in their execution. For these reasons, margins are often higher. Orphan drug development represents a cross-selling opportunity.

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

Cost reduction programme

During the second half of the year, management implemented a number of actions to reduce the cost base of the business, increase operating efficiency and improve overall profitability. This included reduction of headcount, primarily non-billable personnel, and management of supplier and consultancy contracts. The programme is now complete, delivering benefits of £1.2 million in the second half of 2018 at a cost of £0.8 million (which has been treated as an exceptional item).

The cost reduction programme contributed to the turnaround from a £(0.0) million adjusted EBITDA in the first half of 2018 to a £2.3 million adjusted EBITDA profit in the second half of 2018.

Co-development

We believe that our co-development pipeline continues to offer potential upside as programmes progress but, in line with our focus on services, we have not signed any new co-development partnerships during 2018. In 2019, we expect Modus Therapeutics, Asarina Pharma AB ('Asarina') and Cel-Sci to report clinical trial results for their respective developments.

During 2018, Asarina completed a public offering and listing on the Nasdaq First North exchange. Ergomed's holding at 31 December 2018 was approximately 2.4% of Asarina's issued share capital.

Haemostatix

We have continued to make certain incremental investments in Haemostatix during 2018, including in pre-clinical studies, clinical trial product manufacture and intellectual property protection, to maintain readiness for Phase III clinical trials of the lead product, PeproStat. ReadyFlow requires additional formulation development work prior to the initiation of clinical studies.

We believe that Phase III development and commercialisation of Haemostatix products need to be in the control of one party, and in late 2018 we appointed external advisers to find a partner (or partners) to fund Phase III trials, manufacturing scale-up and prepare for commercial launch.

Negotiations with interested parties are progressing but management does not consider they are sufficiently advanced, nor providing sufficient certainty to support the carrying value of the assets, including the goodwill arising on acquisition. Consequently, the goodwill, intangible assets and other assets relating to Haemostatix have been impaired to the recoverable amount of nil, resulting in an impairment of goodwill of £2.1 million, intangibles of £15.2 million and other assets of £0.9 million as of 31 December 2018. The change in the fair value of contingent consideration of £11.6 million relating to the acquisition of Haemostatix, which has also been reduced to nil, and certain onerous contract costs committed as of 31 December 2018 amounting to £0.2 million, have been included in exceptional items in 2018. We expect R&D expenses in 2019 to be not more than £0.3 million, reflecting the run-down of activities and ongoing protection of intellectual property whilst we manage the licensing process.

Board changes

In October, Michael Spiteri joined the Board as Non-Executive Director. Michael has nearly 30 years' experience in information technology and digital implementation and advises the Board on opportunities presented by automation and AI. Andrew Mackie stepped down as Chief Business Officer and Director following the shift in strategy away from Co-development and Haemostatix to exclusively focus on services.

With the departure of Stephen Stamp, announced 23 January 2019, Board roles were realigned with Peter George becoming Non-Executive and Senior Independent Director of the Company and I have become Executive Chairman to provide executive leadership.

Stuart Jackson subsequently notified the Board of his intention to return to the energy sector and leave the Company in the Summer of 2019.

A search for a new CFO is progressing well and once this appointment is made Ergomed will focus on recruiting for the CEO role.

The Company was saddened to announce that Chris Collins, Non-Executive Director, passed away on 8 March 2019 and wishes to acknowledge and express its gratitude for Chris's significant contribution to Ergomed since its IPO in July 2014.

Outlook

Demand for both PV and CRO segments remains generally buoyant and the Company continues to invest in line with its stated strategy to position itself as a market leader in pharmacovigilance and orphan drug development. These investments include geographical expansion, investment in robotic process automation technology to deliver longer-term operational efficiencies and upgrading of our support capabilities in terms of systems and personnel.

A contracted backlog of £109 million, £106 million on a comparable basis (2017: £88 million) underpins Ergomed's ability to deliver its targets for 2019 and creates a solid foundation for continued growth. During the coming period we expect to continue to deliver on our strategy of focusing on the growth and profitability of our services businesses, and to increasingly benefit from the opportunities for cross-selling to customers across the Group, particularly in pharmacovigilance and orphan drug development.

Dr Miroslav Reljanović
Executive Chairman

Investment case

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

↗ Favourable market drivers

The trend to outsource continues to drive growth in pharmaceutical services. The contract research market is expected to reach $59 billion by 2020[1] and the pharmacovigilance market, at around $8 billion, is growing at 18% pa[2]. The contract research services market overall is growing at 7.5% pa[3].

↗ Market leadership

PrimeVigilance is a leading provider of pharmacovigilance 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.

↗ Product development upside

We have economic interests in several 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 2018, our revenues grew at 14% pa, driven by growth of 23% in our PV segment. Growth in PV was almost entirely organic. For clinical research services, our focus will be on orphan drug development. The market for orphan drugs is expected to reach $200 billion by 2020[4].

↗ Acquisition opportunities

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

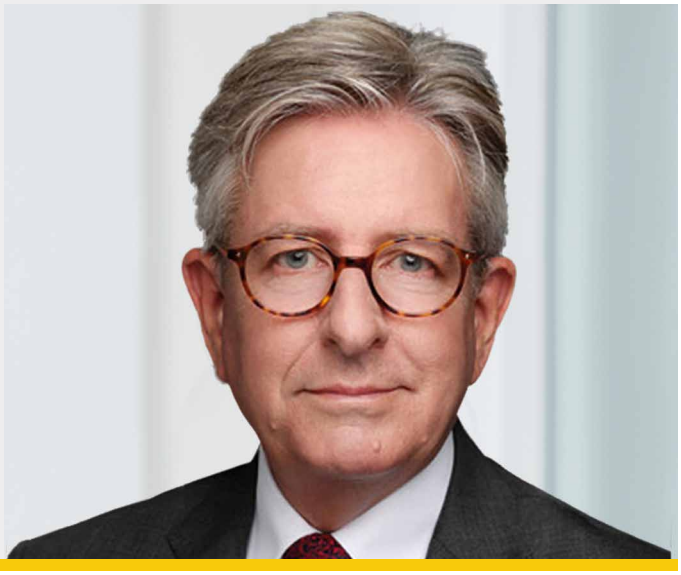
↗ Debt free, net cash position

Ergomed's cash at hand at 31 December 2018 was £5.2 million with zero debt. We retain the flexibility to access the capital markets and/or leverage our balance sheet for strategic acquisitions, as appropriate.

1. Source: Zion Research 2014
2. Source: Global Market Insights 2018
3. Source: Global Data 2018
4. Source: Evaluate Pharma Orphan Drug Report 2018

STRONG REVENUE GROWTH AND IMPROVED SECOND HALF PERFORMANCE

"The Company delivered strong revenue growth driven by both the Pharmacovigilance and clinical research organisation services businesses and an improved second half performance due to operational improvements and our cost reduction programme."



Stuart Jackson
Chief Financial Officer

We continue to see opportunities in the pharmaceutical services market, specifically, with our focus on pharmacovigilance and orphan drug development services. 2018 has been a challenging year but due to the implementation of the cost reduction programme and an increased backlog, the Company is well-positioned going into 2019.

IFRS changes

During 2018 we adopted IFRS 15 in relation to revenue recognition. This moves our revenue recognition for the Clinical Research Organisation ('CRO') services business to a percentage of completion basis measured based on project costs (including third party costs). At adoption there is a one time adjustment to retained earnings and during the year we have drawn comparison to the previous IAS 18 accounting standard so that comparable performance measures can be provided.

During 2019 we will adopt IFRS 16 in relation to leases. IFRS 16 requires lease assets and liabilities to be recognised on the balance sheet. Additionally, lease expenses will be replaced by a combination of depreciation and interest charges, which are excluded from EBITDA.

Services

Overall it was a strong year within the services businesses. Total revenue in 2018 was £54.1 million, which is equivalent to £54.9 million under IAS 18 and an increase of 15%, on a comparable basis from £47.6 million in 2017. Revenue growth was driven by 23% growth in PV revenues, complemented by 9% growth from CRO Services revenues.

Pharmacovigilance

The pharmacovigilance business continued to perform strongly with revenues increasing 23% to £27.5 million in 2018 from £22.4 million in 2017, which was almost entirely organic growth.

During the year, the Company added specialist pharmacoepidemiology services to PrimeVigilance's offering. It also completed the acquisition of two bolt-on acquisitions; Harefield Pharmacovigilance Limited and Pharmacovigilance Services Limited.

Clinical Research Organisation ('CRO') services

Total revenue from the CRO segment of £26.6 million, equivalent to £27.4 million under IAS 18, increased 9% in 2018 on a comparable basis from £25.2 million in 2017, including a £4.1 million contribution from PSR, which was acquired October 2017.

Haemostatix

We have previously announced that our strategy for development of the Haemostatix products, ahead of Phase III trials, is to continue with limited investment whilst pursuing further development through co-investors and/or licensees of the individual products. This strategy resulted in reduced R&D expense in 2018 of £1.6 million, compared to £2.7 million in 2017 and this will reduce further to approximately £0.3 million in 2019.

At the end of 2018, we made the difficult decision to fully impair the investment in Haemostatix resulting in impairment charges of £18.2 million as insufficient progress had been made with partnering activities and we will not fund the Phase III trials alone. The impact of the impairment charge is partially offset by the write-back of contingent consideration of £11.6 million relating to the acquisition of Haemostatix.

Profitability

EBITDA (adjusted) for the year was £2.3 million, which is equivalent to £3.1 million under IAS 18, compared with £2.8 million in 2017. The first half of 2018 was challenging and early in the second half of 2018, we commenced a cost reduction programme, which combined with operational improvements, contributed to the turnaround in 2018 from an adjusted EBITDA of £nil in the first half (£(0.4) million loss IAS 18 equivalent) to a £2.3 million adjusted EBITDA profit in the second half (£3.5 million IAS 18 equivalent).

The impairment charge, cost-reduction programme and other exceptional items resulted in a net loss in 2018 of £9.0 million compared to £4.5 million in 2017.

Co-development

During 2018, one of our co-development partners, Asarina, completed a public offering and listing on the NASDAQ First North exchange. Our holding at 31 December 2018 was valued at £0.9 million, representing approximately 2.4% of Asarina's issued share capital.

Outlook

Demand for both PV and CRO segments remains buoyant and the Company continues to invest in line with its stated strategy to position itself as a market leader in pharmacovigilance and orphan drug development. These investments include geographical expansion, investment in robotic process automation technology to deliver longer-term operational efficiencies and upgrading of our support capabilities in terms of systems and personnel.

A contracted backlog of £109 million, £106 million on a comparable basis (2017: £88 million) underpins our ability to deliver our targets for 2019 and creates a solid foundation for continued growth. During the coming period we expect to continue to deliver on our strategy of focusing on the growth and profitability of our services businesses, and to increasingly benefit from the opportunities for cross-selling to customers across the Group, particularly in pharmacovigilance and orphan drug development.

Stuart Jackson
Chief Financial Officer

As reported	Under IAS 18
Group Revenue	**Revenue**
£54.1m	£54.9m
+14%	+15%
EBITDA (adjusted)	**EBITDA (adjusted)**
£2.3m	£3.1m
-£0.5m	+£0.3m
Contracted Order Backlog	**Contracted Order Backlog**
£109.2m	£106.1m
+21%	+20%

FOCUSED ON ACCELERATED GROWTH

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 focused on the growth of the services business. Ergomed's co-development pipeline and investment in Haemostatix continues to offer upside potential as programmes progress, but is no longer a key component of our strategy.

OUR MISSION

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

Strategic priorities

GROWTH

ACQUISITIONS

STRATEGIC AND SELECTIVE

PRODUCT DEVELOPMENTS

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 outsourced 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.

Additionally we have a clear focus on orphan drug development related customers and will continue to push our specialism in this key arena. Orphan drug development is one of the fastest growing areas of clinical research.

The market for outsourced pharmacovigilance and medical information, while smaller, is less competitive. PrimeVigilance is a leading independent pharmacovigilance and medical information provider in Europe. Increasingly we are seeing the overlap of pharmacovigilance services and later phase clinical research, opening up the opportunity for cross selling services between our clients.

Growth in revenue (under IAS 18)

Pharmacovigilance

+23%
Ergomed

+18%
Industry

Source: Global Market Insights 2018

Clinical Research Services

+9%
Ergomed

+7.5%
Industry

Source: Global data

Ergomed remains focused on organic growth but will continue to look to acquisition opportunities where they specifically expand our service offering. In considering opportunities we will place 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; and
- 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.

During the year, Ergomed added specialist pharmacoepidemiology services to PrimeVigilance's offering. It also completed the acquisition of two bolt-on acquisitions; Harefield Pharmacovigilance Limited and Pharmacovigilance Services Limited.

Ergomed is now a pure service provider focused on the clinical research and pharmacovigilance markets. From previous operating strategies, Ergomed has an interest in certain co-development opportunities and Haemostatix. Given the pure service provision approach, Ergomed will not invest in further development opportunities. However, the Group will continue to manage the existing portfolio of opportunities through to conclusion and to maximise the value of these investments to shareholders, without material further investment.

- Ergomed has continued to make certain incremental investments in the Haemostatix products during 2018. R&D expense in 2018 was £1.6 million (2017: £2.7 million).
- No new co-developments' partnerships were signed in 2018.

DISCOVER OUR ORPHAN ADVANTAGE

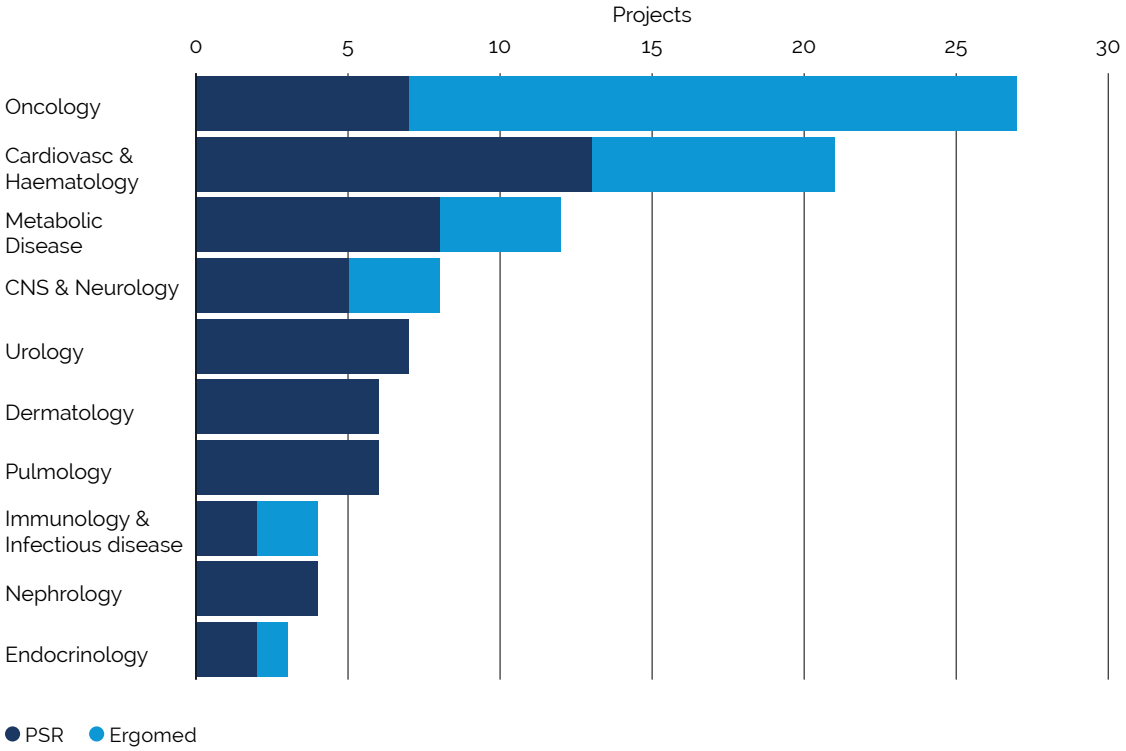
Rare diseases are severe, debilitating or even life-threatening conditions which affect fewer than 5 in 10,000 people (EU definition) or fewer than 200,000 people in the US (US definition). Although patient numbers in individual indications are limited, there are a total of 30 million people worldwide suffering from rare diseases.

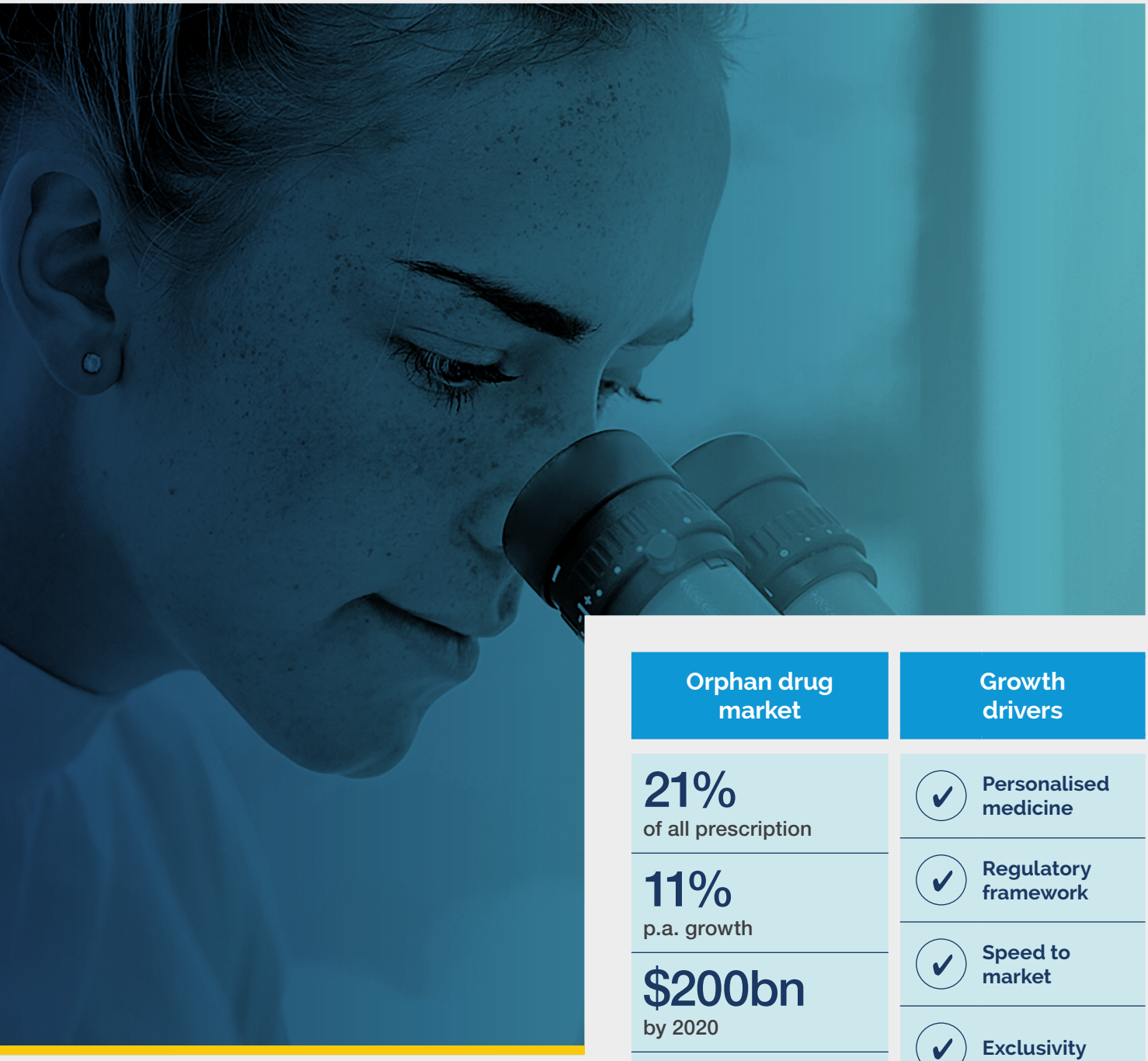
Orphan drugs represent approximately 21% of all prescription drugs with the market growing at 11% pa and expected to reach $200 billion by 2020 driven, in part, by the trend towards personalised medicine.

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.

Ergomed orphan experience

Our orphan experience distributed across therapeutic areas:





Orphan drug market	Growth drivers
21% of all prescription	✔ Personalised medicine
11% p.a. growth	✔ Regulatory framework
$200bn by 2020	✔ Speed to market
30m people suffer from orphan disease	✔ Exclusivity
	✔ Pricing

SOLID RESULTS UNDER-PINNED BY PHARMACOVIGILANCE

Key performance indicators

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

£million (unless stated otherwise)	2018 IFRS 15	2018 IAS 18	2017 IAS 18
Total revenue	54.1	54.9	47.6
Gross profit	19.3	20.1	17.6
Gross margin %	36%	37%	37%
EBITDA (adjusted)	2.3	3.1	2.8
Cash and cash equivalents	5.2	5.2	3.2

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.

The Group adopted IFRS 15 with effect from 1 January 2018. Upon adoption, Ergomed elected to use the cumulative effect transition method, meaning that prior years are not restated under IFRS 15 methodology. For comparison purposes, therefore, reference is also made to IAS 18 and the financial results provide a bridge between these two accounting methodologies where appropriate in an effort to provide a clear picture of the effects.

Consolidated statement of comprehensive income

Total revenue for the year ended 31 December 2018 was £54.1 million, which is equivalent to £54.9 million under IAS 18 (2017: £47.6 million), an increase of 15%, on a comparable basis, driven by 23% growth in PV revenues, complemented by 9% growth from Clinical Research Organisation Services revenues.

Gross profit was £19.3 million and gross margin was 36%. By way of comparison, 2018 gross profit and gross margin were £20.1 million and 37% respectively under IAS 18 (2017 restated: gross profit £17.6 million and gross margin 37%).

Selling, general & administration ('SG&A') expenses, after excluding exceptional items and acquisition related costs were £16.7 million (2017 restated: £13.6 million). The increase in other SG&A expenses of £3.1 million was driven by an additional £0.6 million of overhead in acquisitions, £0.5 million additional recruitment costs, £0.7 million increase in depreciation of internally generated software, £0.5 million in increased premises costs across the group and £1.4 million increase in support functions, offset by a £0.6 million movement in foreign exchange from a £0.5 million loss in 2017 to a £0.1 million gain in 2018.

SG&A expense also includes amortisation of acquired fair valued intangible assets of £1.3 million, share-based payment charge of £0.8 million, acquisition-related contingent compensation of £1.0 million, acquisition costs of £0.2 million and exceptional items of £8.5 million, offset by a change in the fair value of contingent consideration of £0.2 million.

Research and development costs expensed in the year were £1.6 million (2017: £2.7 million) relating to Haemostatix and included chemistry, manufacturing and controls ('CMC') costs for clinical trial material of PeproStat and pre-clinical formulation development costs for ReadyFlow. As noted, at the end of 2018 Ergomed made the decision to fully impair the investment in Haemostatix, as insufficient progress had been made with partnering activities and Ergomed will not fund the Phase III trials alone.

Exceptional costs for the year ended 31 December 2018 related to the establishment of the pharmacoepidemiology business of £0.4 million, the cost reduction programme to increase operating efficiency and improve overall profitability of £0.7 million, other business reorganisation costs of £0.6 million, the impairment of the Haemostatix business of £18.2 million, and onerous contract costs relating to Haemostatix of £0.2 million, offset by the revaluation of deferred consideration for Haemostatix of £11.6 million.

The Group adopted IFRS 9 in respect of financial instruments and its application to receivables. This had minimal impact on the 2018 results.

Consolidated balance sheet

As at 31 December 2018 total assets less total liabilities amounted to £28.4 million (2017: £34.8 million) including cash and cash equivalents of £5.2 million (2017: £3.2 million).

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

- a decrease in intangibles and goodwill of £16.5 million and £1.6 million, respectively, and deferred taxes of £2.8 million, primarily due to the impairment of the Haemostatix assets;
- an increase in accrued income of £1.4 million and an increase in deferred revenue of £4.7 million, including the impact of adopting IFRS 15;
- an increase in cash and cash equivalents of £2.0 million;
- a decrease in the fair value of contingent consideration relating to the Haemostatix acquisition; and
- an increase in share premium, arising from the institutional placing in February 2018, net of costs.

Consolidated cash flow statement

At present, the Group does not have any borrowings or long-term debt.

Cash outflows from operating activities before changes in working capital in the year were £1.6 million (2017: inflows of £1.4 million). Changes in working capital included a £0.5 million increase in trade and other receivables, a £0.2 million increase in other current assets and a £3.2 million increase in trade and other payables. The Group also received taxation of £0.1 million in 2018 (2017: £0.4 million paid).

	Revenue	EBITDA (adjusted)	EBITDA
As reported	**£54.1m** 2017: £47.6m	**£2.3m** 2017: £2.8m	**£(7.9)m** 2017: £(2.3)m
Under IAS 18	**£54.9m** 2017: £47.6m	**£3.1m** 2017: £2.8m	**£(7.1)m** 2017: £(2.3)m

Cash outflows from investing activities were £2.7 million (2017: £3.9 million) including £0.4 million related to the acquisition of Harefield Pharmacovigilance and Pharmacovigilance Services, £0.7 million related to a PharmInvent earn-out payment, £0.8 million for the acquisition of property, plant and equipment and £0.8 million for the acquisition of intangible assets.

Cash inflows from financing activities included proceeds of the institutional placing of £3.8 million net of expenses in February 2018.

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, such as EBITDA, EBITDA (adjusted) and adjusted EPS, which are not defined or specified under the requirements of IFRS. The Group believes that these measures which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business.

Operating loss is the IFRS measure most comparable to EBITDA and EBITDA (adjusted). Operating loss is reconciled to EBITDA and EBITDA (adjusted) as follows:

In £000s	2018	2017
Operating loss	**(10,446)**	**(3,904)**
Adjust for:		
Depreciation and amortisation charges within Other selling, general & administration expenses	1,248	459
Amortisation of acquired fair valued intangible assets	1,286	1,167
EBITDA	**(7,912)**	**(2,278)**
Share-based payment charge	758	1,033
Acquisition-related contingent compensation (note 8)	972	752
Change in the fair value of contingent consideration for acquisitions	(233)	2,875
Acquisition costs	174	259
Exceptional items	8,494	143
EBITDA (adjusted)	**2,253**	**2,784**

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. 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.

Adjusted EPS is based on adjusted earnings/loss. Net income is the IFRS measure most comparable to adjusted earnings/loss. Net income is reconciled to adjusted earnings/loss as follows:

In £000s	2018	2017
Loss for the purposes of basic earnings per share being net profit attributable to owners of the Company	(8,980)	(4,504)
Loss for the purposes of diluted loss per share	(8,980)	(4,504)
Adjust for:		
Amortisation of acquired fair valued intangible assets	1,286	1,167
Share-based payment charge	758	1,033
Acquisition-related contingent compensation (note 8)	972	752
Change in the fair value of contingent consideration for acquisition	(11,850)	2,875
Acquisition costs	174	259
Exceptional items	8,494	143
Unrealised gains on equity investments	(277)	—
Tax effect of adjusting items	(1,323)	—
Adjusted earnings for the purposes of basic and diluted adjusted earnings per share	**871**	**1,725**
Adjusted earnings per share		
Basic	1.9p	4.2p
Diluted	1.9p	4.0p

Going concern

As at 31 December 2018 the Group had £5.2 million in cash and cash equivalents and a strong backlog of £109 million of signed contracts. The Directors expect Ergomed's services business to be cash generative. Taking into account existing cash resources and, after due consideration of cash flow forecasts, the Directors are of the view that Ergomed will continue to have access to adequate resources to allow the Group to continue trading on normal terms of business for no less than 12 months from the date of signing of the financial statements and have therefore prepared the financial statements on a going concern basis.

The Board assesses forecasts extending three years, which are considered appropriate because this matches the average contract duration of the PV business and, whilst CRO contracts can extend for longer periods, activity levels become less certain over time. The Directors expect Ergomed's services business to be cash generative over the medium term.

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 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. 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 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. In addition, pharmacovigilance contracts contain provisions for transition of services.
Foreign currency risk 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. Brexit and discussions leading up to it may lead to a period of increased volatility in Sterling exchange rates, which could result in significant changes in the Group's revenues or costs when reported in Sterling.	↑	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 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: • reduce such expenditure, in particular by reducing the numbers of drugs put into clinical trials; • seek to retain work in-house rather than outsourcing it; and/or • consolidate through the vertical integration of their businesses and choose not to engage Ergomed; then Ergomed's business could be negatively impacted.	↓	Ergomed seeks to maintain diversification in all aspects of its customer base including: • large pharmaceutical vs biotech vs generics customers; • US vs European based customers; and • pre-product approval clinical trials vs post-approval trials and pharmacovigilance services, and actively engages with its customers to protect its existing relationships and build new ones.
Legislation and regulation of the pharmaceutical and biotechnology industries An element of Ergomed's competitive advantage stems from its ability to navigate the regulated medicinal products approval processes and pharmacovigilance regulations which are expensive and complex. If there were to be substantial relaxation of such processes, cross jurisdictional harmonisation or simplification of the legislative or regulatory framework, this could reduce the barriers to entry which prospective competitors face, thereby eroding the Group's competitive advantage.	↓	Ergomed is a strong advocate of rigorous Good Clinical Practice ('GCP') guidelines and pharmacovigilance regulation. Our management team includes former senior regulators in the European Medicines Agency and, through industry associations, remain active promoters of regulation.

↑ Increased risk — No change ↓ Decreased risk

Strategic priorities	Movement	Mitigation of risk
Licences, approvals and compliance 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. In addition, customers audit Ergomed's compliance on a weekly basis.
United Kingdom's exit from the European Union ('Brexit') The process of the United Kingdom's departure from the European Union ('EU') and the terms of the UK's future relationship with the EU remain uncertain. The Group's head office and holding company are located in the United Kingdom and its business in the EU is subject to EU regulation. After Brexit, regulatory or other new barriers to trade may be implemented that may lead to disruption to the Group's business processes and make it less convenient for the Group's customers to contract with its UK entities. Depending on the future regulatory arrangements between the EU and the UK, it may become more difficult for the Group's clients to transfer clinical trial and other personal data to the Group for processing in the UK under the General Data Protection regulation ('GDPR') than it is at present. It may become more difficult for the Group to recruit EU employees into UK entities after Brexit. Many of the Group's contracts with EU customers are governed by English law and subject to the agreed jurisdiction of the English courts, and it may become more complex to enforce such contracts, should court enforcement be required.	↑	The Group's business is international and it has a strong presence and established trading subsidiaries both in and outside the UK. 78% of Group revenue for the 2018 financial year was derived from markets outside the UK and approximately 90% of the Group's employees are employed outside the UK at the date of this report, including employees engaged in client work, and those providing internal support services. The Group has a thorough understanding of the international regulatory processes relating to its business, enabling it to respond rapidly to local changes in circumstances or events. The Group's regulatory experts have analysed the known effects of Brexit and the Group is preparing for a possible no-deal Brexit in line with the guidance published by the Medicines and Healthcare Products Regulatory Authority (UK regulatory authority) and European Medicines Agency (EU regulatory authority). Measures planned by the Group to mitigate the effect of regulatory changes resulting from Brexit include the establishment of Qualified Persons for Pharmacovigilance who reside and operate in the EU and UK respectively, and the use of Ergomed plc's existing Polish subsidiary, Ergomed Sp. z o.o., to act as EU legal representative on clinical trials for CRO clients outside the EU. Well-established procedures are available under the GDPR to permit the transfer of personal data outside the EU which, although they require certain additional administrative steps, will allow continued transfers of data to be made to the Group in the UK in compliance with GDPR requirements.
Customers, pricing and payment terms 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. 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 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 2018 was 28% (2017: 40%). The loss of any client who represents a significant proportion of Ergomed's revenue could have a negative impact on operating results and cash flows.	↓	A significant part of the business development team's focus is generation of leads and requests for proposals from new clients to diversify the Company's customer base. The Company's organic growth combined with acquisitions is naturally diluting reliance on relatively few large clients.

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

Dr. Miroslav Reljanović
Executive Chairman

Board of Directors

Dr Miroslav Reljanović
Founder and Executive Chairman

Dr Miroslav Reljanović 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. Miro founded Ergomed in 1997 and he introduced the novel Study Site Coordination model as an intrinsic part of the conduct of clinical studies.

Miro successfully introduced the first European co-development business model and he has completed several partnerships with European and North American listed biopharmaceutical companies. Miro co-founded PrimeVigilance in 2008 and it soon became a leading specialist vendor of contracted pharmacovigilance services to the pharmaceutical industry.

Miro led Ergomed through a successful IPO on the AIM market of the London Stock Exchange in July 2014 and the subsequent completion of five acquisitions and a secondary offering.

Miro is a Director of Asarina Pharma AB (listed on the Nasdaq First North Exchange) and Modus Therapeutics Holding AB, both Swedish-incorporated companies in which Ergomed plc has an equity stake through co-development arrangements.

Miro brings to the Board his in-depth experience in clinical development and the operational execution of drug development, as well as a detailed knowledge of the Group and its operations.

Miro is Chair of Ergomed's Nomination Committee.

Stuart Jackson
Chief Financial Officer

Stuart Jackson joined Ergomed as Chief Financial Officer on 2 July 2018. Stuart has over 20 years' experience at the Chief Financial Officer level in companies on the London, Nasdaq and Oslo Stock Exchanges. He has significant international experience in early stage and growth companies as well as managing significant and complex change projects. Stuart's experience has been gained primarily in the energy and technology/ telecommunications sectors, where consistent project service delivery across a number of geographies has been a key feature of business success.

To expand on some of Stuart's achievements; he was CFO at Acergy SA, where he was responsible for the financial restructuring of the business and implementation of a new business strategy which took Acergy from $0.1 billion to $6.0 billion market capitalisation over a four year period. Recently he was CFO at CEONA, where he was responsible for the early stage set-up and growth of the business. He was also CFO at Bibby Offshore Holdings Limited, where he managed strategic development and M&A activities and oversaw its recapitalisation.

Stuart's broad experience of finance and business equip him to lead the Group's finance and accounting function and advise the Board on these matters.

Dr Jan Petracek
Chief Operating Officer

Dr. Jan Petracek was appointed to the Board as Chief Operating Officer in December 2017 and has been Chief Executive Officer of PrimeVigilance since April 2017. He 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. Dr Petracek was the EU Qualified Person responsible for pharmacovigilance at Vertex Pharmaceuticals, Biogen and BluePrint Medicines.

Dr Petracek studied Quality and Safety in Healthcare (MSc) at Imperial College London and trained as a physician at Charles University in Prague (MD).

Dr Petracek sits on the Advisory Board of the International Society of Pharmacovigilance and is a regular speaker at international pharmacovigilance conferences and training seminars.

Dr Petracek keeps his skillset up-to-date by attending pharmacovigilance conferences and courses, and attending leadership coaching and business mentoring sessions.

As the founder of several successful organisations, Dr Petracek brings entrepreneurship, business acumen and a track record of innovation in pharmacovigilance to the Board. As a senior ex-regulator, he has a deep understanding of the pharmaceutical regulatory environment.

Peter George
Non-Executive and Senior Independent Director

Peter George joined the Company as a Non-Executive Director in May 2014. He became Senior Independent Director in February 2019, having served as Non-Executive Chairman from April 2017 to January 2019.

Peter has over 20 years' experience in the pharmaceutical services industry, most recently as Chief Executive Officer of Clinigen Group plc, the AIM-listed global speciality pharmaceuticals and pharmaceutical services business. Peter stepped down as CEO of Clinigen in November 2016. Prior to Clinigen, Peter was CEO at Penn Pharma, having led a £67 million management buy-out of the company 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 a Director of PharmaPatents Global.

Peter is currently Chair of Benchmark Holdings plc and Entrepreneur in Residence at Oxford Sciences Innovation.

He is also President of Enigma Holdings Ltd and Chairman of Mitre Group Limited, XPG Ltd, Marco Polo Events Limited, and Rent Plus Ltd, companies he owns or has significant holdings in.

Peter's technical, commercial and business expertise in pharmaceutical services and experience of the AIM market environment enable him to provide valued guidance to the Board.

Peter is Chair of the Company's Audit and Risk Committee and a member of its Remuneration Committee and Nomination Committee.

Michael Spiteri
Non-Executive Director

Michael has held a number of senior leadership positions in the consulting industry and financial services industry over a 25 year period. He specialises in helping organisations implement technology that transforms their business and operating models and is currently responsible for digital and transformation at Santander's UK Corporate Bank.

Michael was previously a partner at PwC and held senior leadership positions at Accenture and IBM. He was involved in the early stages of telematics and the development of automation technology and business models in insurance and telecoms. Michael has a degree in Mechanical Engineering and designed real time computer solutions in the oil and gas industry in the early part of his career.

Michael brings his extensive experience in technological innovation to help the Board develop Ergomed's business across digital, automation and machine learning.

Michael is Chair of the Company's Remuneration Committee, and is a member of its Audit and Risk and Nomination Committees.

Corporate Governance Statement

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

As a company with shares traded on AIM, Ergomed plc has adopted the Quoted Companies Alliance's Corporate Governance Code ('QCA Code'). Dr Miroslav Reljanović, in his capacity as Executive Chairman, has assumed responsibility for ensuring that the Company has appropriate corporate governance standards in place and that these requirements are followed and applied.

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

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

The Board currently consists of five Directors, comprising two Non-Executive Directors (including Peter George as Senior Independent Director), and three Executive Directors (including Dr Miroslav Reljanović as Executive Chairman). The Board considers Peter George and Michael Spiteri to be independent Directors.

The Board meets regularly throughout the year to consider strategy, performance and the framework of internal controls.

The table below shows the number of Board and Board committee meetings held during the year to 31 December 2018 and the attendance of individual Directors at those meetings.

Meetings held during the year to 31 December 2018

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings	**10**	**3**	**3**	**2**
Executive Directors				
Dr Miroslav Reljanović	10	–	–	2
Stephen Stamp[1]	10	–	3	–
Stuart Jackson[2]	3	–	–	–
Andrew Mackie[3]	7	–	–	–
Jan Petracek	10	–	–	–
Non-Executive directors				
Peter George	7	2	2	2
Christopher Collins	9	3	3	2
Michael Spiteri[4]	1	0	0	0

1 Stephen Stamp ceased to be a member of the Remuneration Committee on 5 December 2018.
2 Stuart Jackson was appointed as a Director on 2 July 2018.
3 Andrew Mackie ceased to be a Director on 1 October 2018.
4 Michael Spiteri was appointed as a Director on 1 October 2018. He became a member of the Audit and Risk, Remuneration (as Chair) and Nomination Committees on 5 December 2018.

Board committees

The Board has established Audit and Risk, Nomination and Remuneration Committees, all of which meet at least twice a year.

Audit and Risk Committee

The Audit and Risk Committee has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Company is properly measured and reported on 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 Ergomed's shareholders.

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

Peter George is Chair of the Audit and Risk Committee and Michael Spiteri is the other member. Chris Collins was the Chair of the Audit and Risk Committee during the 2018 financial year, and until his death in March 2019.

The Audit and Risk Committee's report for the 2018 financial year is set out on page 29 of the 2018 Annual Report.

Nomination Committee

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

Dr Miroslav Reljanović is the Chair of the Nomination Committee and Peter George and (since 5 December 2018) Michael Spiteri are the other members. Chris Collins was a member of the Nomination Committee during the 2018 financial year, and until his death in March 2019.

Remuneration Committee

The Remuneration Committee reviews the performance of the Executive Directors and determines their terms and conditions of service, including their remuneration and the grant of options, having due regard to the interests of shareholders.

Michael Spiteri succeeded Chris Collins as Chair of the Remuneration Committee on 5 December 2018. Peter George is the other member of the Remuneration Committee. Stephen Stamp was a member of the Remuneration Committee until 5 December 2018, and Chris Collins was a member of the Remuneration Committee during the 2018 financial year, and until his death in March 2019.

The Remuneration Committee's report for the 2018 financial year is set out on pages 30 to 31 of the 2018 Annual Report.

Share dealing code

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.

Application of QCA Code

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

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders

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

Ergomed's strategy and business model have been worked on extensively by the Board, taking into account investors' feedback and expectations. Our strategy is explained fully within the Strategic Report on pages 1 to 21 of the 2018 Annual Report.

Principle 2 – Seek to understand and meet shareholder needs and expectations

The Board attaches great importance to communication with all of Ergomed's shareholders, both institutional and private. We encourage all our shareholders to attend our Annual General Meeting, which provides a forum and time for shareholders' questions and open discussions.

Furthermore, feedback from investors is obtained through direct interaction between the Executive Chairman (during the 2018 financial year, the CEO) at meetings following its interim and final results, and certain other ad-hoc meetings that take place during the year.

There is also a regular dialogue with shareholders through the medium of the Company's nominated adviser and corporate broker, Numis Securities.

The voting record at the Company's general meetings is monitored and we are pleased that all resolutions proposed so far have been passed by shareholders (with a great majority being passed by 100% of attending votes).

The Company also seeks to stay abreast of shareholder expectations and reactions through its dedicated investor email address: ir@ergomedplc.com.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success

As a global group of companies, Ergomed has historically placed great importance on understanding and respecting different cultural and social values within the international realm in which it operates. We have adopted policies to encourage an open and transparent corporate culture, including policies addressing anti-slavery, anti-bribery and whistleblowing, and a Supplier Code of Conduct. We continue to adopt new policies and monitor the implementation of those that we have adopted so far.

We recognise the importance of implementing feedback mechanisms to solicit, consider and act upon feedback from stakeholder groups. We intend to consider the implementation of such systems during the 2019 financial year. This remains a challenge, considering the global environment in which we operate, but the Board continues to place this matter high on the list of Ergomed's priorities.

We use LinkedIn, Facebook and Twitter to encourage dialogue with all stakeholders, including clients and employees. We post on topics such as company news, exhibitions we are attending, webinars we are involved in, company and employee achievements and corporate social responsibility activities.

Our individual offices support a variety of local charities, with a focus on those related to healthcare.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

Details of the principal risks and uncertainties which the Board considers to be associated with the Group's activities, together with the mitigation actions which are being pursued in relation to them, are set out on pages 20 to 21 of the 2018 Annual Report.

Internal control and risk management

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

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

- control procedures and environment – the Group has an organisational structure with clearly drawn lines of accountability and authority. Employees are required to follow well-defined internal procedures and policies appropriate to the business and their position within the business and management promotes the highest levels of professionalism and ethical standards;
- identification and evaluation of risks – the Group employs Executive Directors and senior management with the appropriate knowledge and experience required for a medical and scientific research group. Identification and evaluation of risk is a continuous process running in parallel with the significant organic growth of the Group. As a Group, we assess risk on a daily basis and specifically when assessing particular contracts, projects or directions. We consider that there is room for improvement in the creation and implementation of risk management policies, and this is on our priority list for 2019;
- 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; and
- 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 Company's Executive Committee, which comprises Executive Directors and other senior executives, performs a more detailed review, taking corrective action if required.

Given the Group's relatively 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.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair

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

In January 2019, Dr Miroslav Reljanović was elected Executive Chairman of the Board, following the resignation for health reasons of the CEO, Stephen Stamp. Dr Reljanović founded the Company as a CRO in 1997 and co-founded PrimeVigilance in 2008. He was CEO of the Company until June 2017, when he became Executive Vice-Chairman. With his thorough knowledge and experience of the Group and the market in which it operates, the Board decided that it was in the best interests of the Company for Dr Reljanović to re-assume full executive responsibility for the Company, pending a search for a new CEO. Also in January 2019, Peter George stepped down as Chairman to became the Company's Senior Independent Director, to act as a sounding board and intermediary for the Executive Chairman and other Board members.

The Board considers Peter George and Michael Spiteri to be independent Directors.

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

Board meetings typically take half a day with one day of preparation time per meeting. Non-Executive Directors are required to spend a minimum of 12 days per year, and such additional time as is necessary, on Company business (including attendance at Board meetings), and Executive Directors are full-time employees. The table on page 24 of the 2018 Annual Report shows the number of Board and Board committee meetings held during the year to 31 December 2018 and the attendance of individual Directors at those meetings.

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

Principle 6 – Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

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

A summary of the skills and experience of each Board member is included in their biographies on pages 22 to 23 of the 2018 Annual Report and in their biographies on the 'Investors' section of the Company's website at www.ergomedplc.com.

The Board is drawn from an international background, representing the international nature of the Group's, and many of our clients', businesses. The Directors are aware that the Board is not currently balanced in terms of gender representation and, while they support improved gender balance as an important goal, their fundamental aim (with reference to the size of the Group) is to ensure that the right mix of skills, experience and capabilities is represented on the Board.

The Board regularly reviews and evaluates its skills and capabilities and, in October 2018, Michael Spiteri was appointed as a Non-Executive Director in order to focus on helping the Group develop its business across digital, automation and machine learning.

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

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the General Counsel and Company Secretary and the Chief Financial Officer.

All Directors are required to retire by rotation at every third AGM at which they hold office, in accordance with the Company's Articles of Association.

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

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

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

The Board recognises that the criteria and processes of these evaluations should be more formal, and this is one of its objectives for 2019.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

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

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

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

The Chairman's Corporate Governance Statement dated 28 September 2018 stated that Ergomed intended to adopt a Code of Conduct by mid-2019. Our Supplier Code of Conduct was adopted in late 2018, and during the next 12 months we intend to focus on the implementation of revised human resources policies which promote best practice behaviours throughout the Group.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Further details on our governance structure and the role of our Board Committees are set out on pages 24–25 of the 2018 Annual Report and in the 'Investors' section of our website at www.ergomedplc.com.

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

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

The Board intends to review its governance structures regularly to ensure they are fit for purpose and will carry out a review of the terms of the Audit and Risk, Nomination and Remuneration committees during 2019.

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

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

Regular communication is maintained with our shareholders primarily through:

- our Annual General Meeting;
- our investors' dedicated email address: ir@ergomedplc.com;
- our websites (www.ergomedplc.com, www.primevigilance.com and https://psr-group.com);
- meetings and conversations between the Executive Chairman and shareholders, both on an ad-hoc basis, and following publication of the interim and final results; and
- company announcements.

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

Our Group website (www.ergomedplc.com) sets out details of the Group and its activities, regulatory announcements and company press releases, Annual Reports, half-year reports, notices of general meetings and information required by the AIM Rules for companies and the QCA Code. From the Company's 2019 AGM, the Group website will also disclose the outcome of votes at general meetings. The 'Investors' section of the Group website includes a dedicated 'Corporate Governance' section, where our annual Corporate Governance Statements can be found. During the next 12 months we intend to enhance the Corporate Governance section of our website to include clear signposting to where the disclosures required by the QCA Code are located (i.e. in our Annual Report or on our website).

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

Dr Miroslav Reljanović
Executive Chairman
7 May 2019

Audit and Risk Committee report

Membership of the Audit and Risk Committee comprises both of the independent Non-Executive Directors of the Company, with myself as Chair, and Michael Spiteri as the other member. Chris Collins was Chair of the Committee during the 2018 financial year and until his death in March 2019. Chris was an independent Non-Executive Director with many years of corporate finance experience and I would like to express my sincere thanks for his stewardship of the Committee since the Company's IPO in 2014. Stephen Stamp, the Company's Chief Executive Officer during the 2018 financial year, attended all Committee meetings during 2018. In addition, senior management attended certain meetings where relevant.

The Audit and Risk Committee meets at least twice each year and may meet at other times during the year, as required. During the 2018 financial year there were three meetings of the Committee. The Company's external auditors may be required to attend Committee meetings, and attended all Committee meetings held in 2018.

The Audit and Risk Committee's main responsibilities are as follows:

- monitoring the integrity of the financial statements of the Group and reviewing any significant reporting issues and judgements they contain;
- keeping under review the adequacy and effectiveness of the internal financial controls and risk management systems;
- reviewing, and challenging, where necessary, the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- reviewing, and challenging, where necessary, the consistency of, and any changes to, accounting policies, both on a year on year basis and across the Company and its group;
- considering and making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor;
- overseeing the relationship with the external auditor, assessing their independence and effectiveness and making recommendations on their remuneration; and
- reviewing the findings of the audit with the external auditor.

Activities during the year

In early 2018, as part of a review of the Company's external audit service, the Audit and Risk Committee invited certain audit firms to participate in a formal tender process, following which it recommended to the Board that KPMG, Dublin be proposed to shareholders for appointment as the Company's new auditors. Shareholders approved the appointment at the Company's Annual General Meeting held on 12 June 2018 and KPMG were appointed as the Company's auditors with effect from the close of that meeting. The Audit and Risk Committee has confirmed it is satisfied with the independence, objectivity and effectiveness of KPMG and has recommended to the Board that it be reappointed as the Company's auditors. There will be a resolution to this effect at the forthcoming Annual General Meeting.

In addition, the Audit and Risk Committee reviewed the recommendations of the finance function and received reports from the external auditor on their findings. The significant reporting matters and judgements the Audit and Risk Committee considered during the year included:

- The carrying value of goodwill and other intangible assets arising on the acquisition of Haemostatix, to determine whether an impairment had been suffered. The Committee reviewed the key financial assumptions underpinning the impairment analysis and was satisfied that an impairment was required and appropriate disclosure has been made (see the Financial Review on pages 18 to 19 and Note 15 to the financial statements on page 69).
- The adoption of IFRS 15, Revenue for Contracts with Customers. The Committee reviewed the accounting policy, the impact on opening balances and the results for the year and the disclosures in the financial statements. Key judgments and estimates were communicated to the Audit and RIsk Committee (see the Financial Review on pages 18 to 19 and Note 1 to the financial statements on pages 48 to 52).

Peter George
Chair of the Audit and Risk Committee

Remuneration Committee report

Remuneration Committee governance

The Remuneration Committee currently consists of myself as Chair and Peter George, being all the Company's independent Non-Executive Directors. I became a member and Chair of the Remuneration Committee on 5 December 2018.

Chris Collins was Chair of the Remuneration Committee during the 2018 financial year until 5 December 2018, and remained a member until his death in March 2019. I would like to take this opportunity to acknowledge and express gratitude for Chris's significant contribution to the work of the Remuneration Committee and to Ergomed as a whole. Stephen Stamp, who served as the Company's Chief Executive Officer during the 2018 financial year, was a member of the Remuneration Committee until 5 December 2018.

The Remuneration Committee meets at least twice a year, and may meet at other times during the year, as required. During the 2018 financial year there were three meetings of the Remuneration Committee. No Director is involved in any decisions relating to his own remuneration.

The Remuneration Committee's main responsibilities are as follows:

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

Remuneration policy overview

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

The aim of the remuneration policy is to encourage 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; and
- total compensation between average and upper quartile.

Salary

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

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

Share options

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

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

Directors' remuneration

The Executive Directors during the year, Dr Miroslav Reljanović, Stuart Jackson, Andrew Mackie, Jan Petracek and Stephen Stamp were entitled to receive base salary, travel allowance, employer pension contributions, share options and a discretionary performance-related bonus.

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

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 2018 £000s
Peter George	111,667					111,667
Stephen Stamp[1, 2]	189,583	851		20,000		210,434
Dr Miroslav Reljanović[3]	148,940	2,551				151,491
Andrew Mackie[4]	150,000	904		15,000		165,904
Jan Petracek	200,000	2,823		910		203,733
Chris Collins[5]	42,500					42,500
Michael Spiteri[6]	12,500					12,500
Stuart Jackson[7]	99,462					99,462

1. Stephen Stamp and Andrew Mackie received private medical insurance as a benefit during the year.
2. Stephen Stamp resigned as a Director with effect from 22 January 2019.
3. Miroslav Reljanović has the occasional use of a Company-owned vehicle.
4. Andrew Mackie resigned as a Director on 1 October 2018.
5. Chris Collins died on 8 March 2019.
6. Michael Spiteri was appointed as a Director on 1 October 2018.
7. Stuart Jackson was appointed as a Director on 2 July 2018.

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.

The amount payable to the highest paid Director in respect of emoluments was £210,000 (2017: £276,000), comprising basic salary of £189,000, healthcare benefits of £1,000 and pension contributions of £20,000.

Options granted to Directors as at 31 December 2018

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:						
Andrew Mackie[1]	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
	02/07/2018	400,000	£0.01	01/07/2021	01/07/2028	Ergomed plc Long Term Incentive Plan
Stephen Stamp	11/01/2016	400,000	£0.01	10/01/2019	10/01/2026	Ergomed plc Long Term Incentive Plan
Stuart Jackson	02/07/2018	400,000	£0.01	01/07/2021	01/07/2028	Ergomed plc Long Term Incentive Plan
Options over Ergomed shares owned by Dr Miroslav Reljanović:						
Andrew Mackie[1]	20/07/2015	88,235	£0.01	20/07/2015	19/07/2025	N/A
	20/07/2015	88,235	£0.01	20/07/2017	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

1. Disclosure is for period from 1 January 2018 to 1 October 2018.

No other options held by the Directors were exercised or lapsed during the year.

Michael Spiteri
Chair of the Remuneration Committee

The Directors present their report and financial statements for the Company and Group for the year ended 31 December 2018.

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 39 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 Executive Chairman's review on pages 9 and 10.

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 (2017: £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 (Resigned 22 January 2019)
Dr Miroslav Reljanović
Andrew Mackie (Resigned 1 October 2018)
Michael Spiteri (Appointed 1 October 2018)
Stuart Jackson (Appointed 2 July 2018)
Jan Petracek
Christopher Collins (Died 8 March 2019)

At 31 December 2018, the Directors had the following beneficial interests in the Company's shares:

Directors' interests	Number of shares	Percentage of total issued share capital
Peter George	776,250	1.74%
Dr Miroslav Reljanović	10,955,767	24.51%
Stephen Stamp	200,000	0.45%
Stuart Jackson	1,845	0.00%
Jan Petracek	418,006	0.94%
Christopher Collins	31,250	0.07%

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

The interests of Directors in the options of the Company are set out in the Remuneration Committee Report on pages 30 to 31.

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 38 for all related party transactions.

Related party transactions
Ergomed d.o.o., a company registered in Croatia, is under the control of Dr Miroslav Reljanović, who is a Director and shareholder of the Company. During the year the Company and its subsidiaries were charged £247,000 (2017: £266,000) by Ergomed d.o.o. and its subsidiaries in respect of clinical research costs and other administrative services. At 31 December 2018 a balance of £64,000 was owed by the Company and its subsidiaries to Ergomed d.o.o. and its subsidiaries in respect of these costs (2017: £40,000).

Tortuga Energy Services Limited is a company part-owned by Stuart Jackson, who is a Director and shareholder of the Company. During the year, the Company was charged consultancy fees of £17,000 (2017: £nil) in relation to the services of Stuart Jackson prior to his appointment as a director. At 31 December 2018, amounts payable to Tortuga Energy Services Limited in relation to such consultancy services and associated expenses were £17,000 (2017: £nil).

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 contingent consideration. During the year £607,000 (2017: £472,000) was charged to the income statement in relation to this
contingent consideration and was payable in cash and equity at 31 December 2018.

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.

Share capital
As at 31 December 2018, the issued share capital of the Company was 45,016,438 (2017: 42,680,813) issued and fully paid up ordinary shares of £0.01 each ('Ordinary Shares').

The closing market price of the Company's Ordinary Shares at close of business on 29 December 2018, the last trading day of the year, was 157.0 pence (2017: 183.5 pence).

The maximum share price during the period from 1 January 2018 through 31 December 2018, was 248.0 pence (2017: 216.5 pence) and the minimum price was 145.0 pence (2017: 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.

KPMG were appointed as auditors for 2018 in place of Deloitte LLP, and have expressed their willingness to continue in office as auditor. A resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Statement of Directors' responsibilities

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. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the Group's profit or loss for that period.

In preparing 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, relevant and reliable;
- state whether the Group's financial statements have been prepared in accordance adopted with IFRSs as by the EU;
- state whether the Company's financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and a Directors' report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Stuart Jackson
Director
7 May 2019

Independent auditor's report
to the members of Ergomed plc

Our opinion is unmodified

We have audited the financial statements of Ergomed plc ('the Company') for the year ended 31 December 2018 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company statement of changes in equity, the Group cashflow statement and the related notes, including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Key audit matters: our assessment of risks of material misstatement

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

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

- Revenue recognition: Clinical research service ('CRS') contracts
- Valuation of Haemostatix goodwill and intangible assets impairment
- Valuation of Haemostatix contingent consideration

Revenue recognition: Clinical research service ('CRS') contracts: £26.6 million (2017: £24.8 million)

Refer to Note 1 Accounting policies – Revenue recognition – Revenue from contracts with customers (page 58) and Note 3 Revenue (page 63).

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

Valuation of Haemostatix goodwill and intangible assets £nil (2017: £17.3 million)

Refer to Note 1 Accounting policies – Business combinations (page 54) and Note 15 – Goodwill – Group (page 69) and Note 16 Other intangible assets – Group (page 71).

The key audit matter	How the matter was addressed in our audit
The Group recognised goodwill of £2.1 million and intangible assets of £15.2 million from the acquisition of Haemostatix Ltd in 2016. 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. The clinical trials of Peprostat and ReadyFlow have been delayed as the Company seeks partners to fund its development. Conducting an impairment test to determine if the carrying amount of goodwill is recoverable is complex, judgemental and involves significant assumptions in determining the timing of drugs coming to market, maximum sales of each product, revenue growth rate, costs to complete and the discount factor applied within the financial model.	We inquired of Directors about the plan and funding requirement for the next phase of clinical trials, noting that the Company is actively marketing the Haemostatix compounds for sale to other parties. However, no partner or sale is considered probable based on documents inspected. Following an internal review of the expenditure required to progress clinical trial of Peprostat and ReadyFlow and the funding constraint, management have made the decision not to fund beyond its current status. As a result, the Board have made the decision to impair all of the assets and liabilities relating to Haemostatix including the goodwill and intangible asset amount of £2.1 million and £15.2 million respectively. We found the net impairment charge recognised in the income statement of £2.1 million for goodwill and £15.2 million for intangible assets to be reasonable.

Valuation of Haemostatix contingent consideration £nil (2017: £11.6 million)

Refer to Note 1 Accounting policies – Business combinations (page 54) and Note 26 – Contingent and deferred consideration (page 79).

The key audit matter	How the matter was addressed in our audit
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 £20 million 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 delays in the development of the Haemostatix compounds, there is an increased risk that the contingent consideration will not be payable or that the fair value of the liability is significantly reduced.	We inquired of management regarding the fair value calculation of the contingent consideration in light of the delays in developments and the funding constraint. As a result of the impairment of the goodwill and intangible asset relating to Haemostatix discussed earlier, the fair value of the contingent consideration is deemed to be zero and the full contingent consideration amount of £11.6 million was released to the income statement. We found that the fair value of the contingent consideration is appropriate.

Parent Company key audit matters

Revenue recognition: Clinical research service ('CRS') contracts

Refer to Note 1 Accounting policies – Revenue recognition – Revenue from contracts with customers (page 58) and Note 3 Revenue (page 63).

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

Valuation of Haemostatix financial fixed asset £nil (2017: £17.2 million)
Refer to Note 1 Accounting policies – Impairment of tangible and intangible assets excluding goodwill (page 55) and Note 18 Subsidiaries (page 73) and Note 19 Investments – Investments in subsidiaries (page 75).

The key audit matter	How the matter was addressed in our audit
The investment in Haemostatix is carried in the balance sheet at costs less impairment. Under IAS 36 an impairment review is required to be completed annually and/or whenever there is an indication that the Company, may be impaired. There is a risk that the carrying value of this investment maybe impaired as a result of the delays in the clinical trials of Peprostat and ReadyFlow as the Company seeks partners to fund its development.	Following an internal review of the expenditure required to progress clinical trial of Peprostat and ReadyFlow and the funding constraint, management have made the decision not to fund beyond its current status. As discussed above, the Board have made the decision to impair all the assets and liabilities relating to Haemostatix including the goodwill and intangible asset amount of £2.1 million and £15.2 million respectively at the group level and consequently the financial fixed asset investment in the Haemostatix has also been impaired at the Company level. The impairment charge recognised in the income statement of £17.2 million is reasonable.

Valuation of Haemostatix contingent consideration £nil (2017: £11.6 million)
Refer to Note 1 Accounting policies - business combinations (page 54) and Note 26 Contingent and deferred consideration (page 79).

The key audit matter	How the matter was addressed in our audit
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 £20 million 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 delays in the development of the Haemostatix compounds, there is an increased risk that the contingent consideration will not be payable or that the fair value of the liability is significantly reduced.	We inquired of management regarding the fair value calculation of the contingent consideration in light of the delays in developments and the funding constraint. As a result of the impairment of the goodwill and intangible asset relating to Haemostatix discussed earlier, the fair value of the contingent consideration is deemed to be zero and the full contingent consideration amount of £11.6 million was released to the income statement. We found that the fair value of the contingent consideration is appropriate.

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

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

We report to the Audit and Risk Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.026 million, in addition to other audit misstatements below that threshold that we believe warrant reporting on qualitative grounds.

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

We have engaged KPMG Czech Republic as component auditors for the year ended 31 December 2018 to report on PrimeVigilance s.r.o. We, as Group auditor, instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the materiality for components which ranged from £0.036 million to £0.443 million, having regard to the mix of size and risk profile of the Group across the components.

The locations subject to total audit procedures represent the principal business units and account for 98% of the Group's revenue for the year ended 31 December 2018. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

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

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

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

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

We have nothing to report on going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

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

Other information

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

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

Based solely on our work on the other information:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 33, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

John Corrigan (Senior Statutory Auditor)
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place,
St. Stephen's Green,
Dublin 2,
Ireland.
7 May 2019

Consolidated income statement
For the year ended 31 December 2018

	Notes	2018 £000s	Restated 2017 £000s
Service revenue		**54,112**	47,254
Licence revenue		**–**	370
Revenue	3, 4	**54,112**	47,624
Cost of sales		**(26,788)**	(22,398)
Reimbursable expenses		**(8,070)**	(7,609)
Gross profit		**19,254**	17,617
Selling and general administration expenses		**(28,152)**	(19,784)
Selling and general administration expenses comprises:			
Other selling and general administration expenses		**(16,701)**	(13,555)
Amortisation of acquired fair valued intangible assets	16	**(1,286)**	(1,167)
Share-based payment charge	31	**(758)**	(1,033)
Acquisition-related contingent compensation	7	**(972)**	(752)
Change in the fair value of contingent consideration for acquisitions		**233**	(2,875)
Acquisition costs	8	**(174)**	(259)
Exceptional items	9	**(8,494)**	(143)
Research and development		**(1,578)**	(2,689)
Net impairment losses on financial and contract assets		**(9)**	834
Other operating income		**39**	118
Operating loss		**(10,446)**	(3,904)
Investment income	10	**23**	3
Unrealised gains on equity investments	19	**277**	–
Finance costs	11	**(622)**	(546)
Loss before taxation		**(10,768)**	(4,447)
Taxation	13	**1,788**	(57)
Loss for the year	5	**(8,980)**	(4,504)
Loss per share			
Basic	14	**(20.0)p**	(11.0)p
Diluted	14	**(20.0)p**	(11.0)p

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

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

The notes on pages 47 to 93 form an integral part of these financial statements.

The re-statement of the income statement for 2017 is explained in note 1.

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	2018 £000s	2017 £000s
Loss for the year	**(8,980)**	(4,504)
Items that may be classified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**120**	619
Other comprehensive income for the year net of tax	**120**	619
Total comprehensive loss for the year	**(8,860)**	(3,885)

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

Consolidated balance sheet
As at 31 December 2018

	Notes	2018 £000s	2017 £000s
Non-current assets			
Goodwill	15	**13,659**	15,269
Other intangible assets	16	**3,740**	20,229
Property, plant and equipment	17	**1,344**	1,078
Equity investments at fair value through profit and loss	19	**2,065**	–
Investments	19	**–**	754
Deferred tax asset	20	**581**	1,613
		21,389	38,943
Current assets			
Trade and other receivables	21	**16,429**	16,807
Other current assets	22	**–**	502
Accrued income		**3,857**	2,443
Cash and cash equivalents	23	**5,189**	3,218
		25,475	22,970
Total assets		**46,864**	61,913
Current liabilities			
Borrowings	24	**(6)**	(12)
Trade and other payables	25	**(10,989)**	(10,717)
Contingent and deferred consideration	26	**(119)**	(1,957)
Deferred revenue		**(5,651)**	(976)
Current tax liability		**(422)**	(201)
Total current liabilities		**(17,187)**	(13,863)
Net current assets		**8,288**	9,107
Non-current liabilities			
Borrowings	24	**–**	(6)
Provisions		**(216)**	–
Contingent and deferred consideration	26	**(544)**	(9,804)
Deferred tax liability	20	**(554)**	(3,397)
Total liabilities		**(18,501)**	(27,070)
Net assets		**28,363**	34,843
Equity			
Share capital	27	**452**	428
Share premium account	28	**24,384**	20,616
Merger reserve	29	**11,088**	11,008
Share-based payment reserve	30	**3,430**	2,674
Translation reserve	30	**882**	762
Retained earnings		**(11,873)**	(645)
Total equity		**28,363**	34,843

The notes on pages 47 to 93 form an integral part of these financial statements.

Approved by the Board of Directors and authorised for issue on 7 May 2019.

Stuart Jackson
Director

Company Registration No. 04081094

Consolidated statement of changes in equity
For the year ended 31 December 2018

	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 2016	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)
Transactions with shareholders in their capacity as shareholders:							
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
Total transactions with shareholders in their capacity as shareholders	22	2,659	744	845	–	60	4,330
Balance at 31 December 2017	428	20,616	11,008	2,674	762	(645)	34,843
Cumulative effect of adopting IFRS 15 (note 1)	–	–	–	–	–	(2,232)	(2,232)
Balance at 1 January 2018	**428**	**20,616**	**11,008**	**2,674**	**762**	**(2,877)**	**32,611**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(8,980)**	**(8,980)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**120**	**–**	**120**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**120**	**(8,980)**	**(8,860)**
Transactions with shareholders in their capacity as shareholders:							
Share issue during the year for cash (net of expenses)	**21**	**3,768**	**–**	**–**	**–**	**–**	**3,789**
Share issues during the year for non-cash consideration	**1**	**–**	**80**	**–**	**–**	**–**	**81**
Contingent share issue for non-cash consideration	**2**	**–**	**–**	**(2)**	**–**	**–**	**–**
Share-based payment charge for the year	**–**	**–**	**–**	**758**	**–**	**–**	**758**
Deferred tax debit taken directly to equity	**–**	**–**	**–**	**–**	**–**	**(16)**	**(16)**
Total transactions with shareholders in their capacity as shareholders	**24**	**3,768**	**80**	**756**	**–**	**(16)**	**4,612**
Balance at 31 December 2018	**452**	**24,384**	**11,088**	**3,430**	**882**	**(11,873)**	**28,363**

Consolidated cash flow statement
For the year ended 31 December 2018

	Notes	2018 £000s	2017 £000s
Cash flows from operating activities			
Loss before taxation		**(10,768)**	(4,447)
Adjustment for:			
Amortisation and depreciation	16,17	**2,534**	1,626
Impairment of goodwill, intangibles and other assets	15,16	**18,222**	
Loss/(gain) on disposal of fixed assets	17	**33**	(7)
Share-based payment charge	31	**758**	1,033
Equity investments received in exchange for services provided	19	**(1,054)**	(462)
Acquisition costs		**–**	218
Change in the fair value of contingent consideration for acquisition	9	**(11,617)**	2,875
Investment income	10,19	**(300)**	(3)
Finance costs	11	**622**	546
Operating cash flow before changes in working capital and provisions		**(1,570)**	1,379
Increase in trade and other receivables		**(505)**	(3,445)
Increase in other current assets		**(248)**	(262)
Increase in trade and other payables		**3,221**	2,753
Cash generated from operations		**898**	425
Taxation received/(paid)		**146**	(355)
Net cash inflow from operating activities		**1,044**	70
Investing activities			
Investment income received		**5**	3
Acquisition of intangible assets	16	**(753)**	(704)
Acquisition of property, plant and equipment	17	**(834)**	(721)
Receipts from sale of property, plant and equipment	17	**7**	11
Acquisition of subsidiaries, net of cash acquired	33,34	**(410)**	(1,946)
Acquisition related earn-out paid	26	**(751)**	(559)
Net cash outflow from investing activities		**(2,736)**	(3,916)
Financing activities			
Issue of new shares	27,28	**3,973**	2,900
Expenses of fundraising	27,28	**(183)**	(224)
Finance costs paid		**(4)**	(2)
Increase in borrowings		**–**	20
Repayment of borrowings		**(12)**	(10)
Net cash inflow from financing activities		**3,774**	2,684
Net increase/(decrease) in cash and cash equivalents		**2,082**	(1,162)
Effect of foreign currency on cash balances		**(111)**	(44)
Cash and cash equivalents at start of the year		**3,218**	4,424
Cash and cash equivalents at end of year	23	**5,189**	3,218

Company balance sheet
As at 31 December 2018

	Note	2018 £000s	2017 £000s
Non-current assets			
Intangible assets	16	**821**	436
Property, plant and equipment	17	**74**	96
Equity investments at fair value through profit and loss	19	**2,065**	–
Investments	19	**–**	754
Investments in subsidiaries	19	**23,585**	38,864
Deferred tax asset	20	**581**	678
		27,126	40,828
Current assets			
Trade and other receivables	21	**7,949**	14,524
Accrued income		**3,181**	1,378
Cash and cash equivalents	23	**1,250**	288
		12,380	16,190
Total assets		**39,506**	57,018
Current liabilities			
Trade and other payables	25	**(18,365)**	(12,074)
Contingent consideration	26	**–**	(1,957)
Deferred revenue		**(4,949)**	(855)
Total current liabilities		**(23,314)**	(14,886)
Net current (liabilities)/assets		**(10,934)**	1,304
Non-current liabilities			
Contingent consideration	26	**(544)**	(9,804)
Deferred tax liability	20	**(12)**	(12)
Total liabilities		**(23,870)**	(24,702)
Net assets		**15,636**	32,316
Equity			
Share capital	27	**452**	428
Share premium account	28	**24,384**	20,616
Merger reserve	29	**11,088**	11,008
Share-based payment reserve	30	**3,430**	2,674
Translation reserve	30	**4,166**	3,693
Retained earnings		**(27,884)**	(6,103)
Total equity		**15,636**	32,316

The notes on pages 47 to 93 form an integral part of these financial statements.

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 £19,829,000 (2017: £4,050,000).

Approved by the Board of Directors and authorised for issue on 7 May 2019.

Stuart Jackson
Director

Company Registration No. 04081094

Company statement of changes in equity
For the year ended 31 December 2018

	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 2017	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)
Transactions with shareholders in their capacity as shareholders:							
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
Total transactions with shareholders in their capacity as shareholders	22	2,659	744	845	–	60	4,330
Balance at 31 December 2017	428	20,616	11,008	2,674	3,693	(6,103)	32,316
Cumulative effect of adopting IFRS 15 (note 1)	–	–	–	–	–	(1,936)	(1,936)
Balance at 1 January 2018	**428**	**20,616**	**11,008**	**2,674**	**3,693**	**(8,039)**	**30,380**
Loss for the year	–	–	–	–	–	(19,829)	(19,829)
Other comprehensive income for the year	–	–	–	–	473	–	473
Total comprehensive income for the year	–	–	–	–	473	(19,829)	(19,356)
Transactions with shareholders in their capacity as shareholders:							
Share issue for cash (net of expenses) during the year	21	3,768	–	–	–	–	3,789
Share issues for non-cash consideration during the year	1	–	80	–	–	–	81
Contingent share issue for non-cash consideration	2	–	–	(2)	–	–	–
Share-based payment charge for the year	–	–	–	758	–	–	758
Deferred tax debit taken directly to equity	–	–	–	–	–	(16)	(16)
Total transactions with shareholders in their capacity as shareholders	24	3,768	80	756	–	(16)	4,612
Balance at 31 December 2018	452	24,384	11,088	3,430	4,166	(27,884)	15,636

1. Accounting policies

Group

Ergomed plc (the 'Company') is a public company limited by shares. Its registered address is 1 Occam Court, Surrey Research Park, Guildford, Surrey, GU2 7HJ, UK. Ergomed plc and its wholly owned subsidiaries (together the 'Group') provide a full range of clinical trial planning, management and monitoring, as well as drug safety and medical information services. The Group has a worldwide presence with operations in the UK, Poland, Germany, Bosnia, Croatia, India, Serbia, The Netherlands, 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 7 May 2019.

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 separate financial statements of the Company are drawn up in accordance with the Companies Act 2006 and the reduced disclosure framework within Financial Reporting Standard 101 ('FRS 101'). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement, cash flow statement and related notes that form a part of these approved financial statements. The Company has also taken advantage of the disclosure exemptions in FRS 101 relating to share-based payments, business combinations, financial instruments and fair value measurement.

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 transactions 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 for the period ending 31 December 2019 through to 31 December 2021, which is derived from the 2019 Board approved budget, and a medium-term cash flow forecast through to 31 December 2021, which is an extrapolation of the approved budget under multiple scenarios and growth rates. The 2019 and medium-term forecast represents the Directors' best estimate of the Group's future performance and necessarily includes a number of assumptions, including the level of revenues. The 2019 and medium-term forecast demonstrate that the Directors have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements.

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

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 16	Leases
IFRIC 23	Uncertainty over Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Various standards	Annual Improvements to IFRS Standards 2015-2017 Cycle

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 for IFRS 16.

IFRS 16, *Leases* (mandatory for years commencing on or after 1 January 2019) ('IFRS 16')

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from the previous guidance.

The Group is currently evaluating the impact of adopting IFRS 16. However, the adoption of IFRS 16 is likely to have a material impact on the consolidated financial statements due to the following:

- It is anticipated that lease assets of approximately £7 million and a corresponding lease liability will be recorded upon adoption.
- Under current guidance, the costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term as a lease expense. Under IFRS 16, the costs in respect of leases are the depreciation of the right-of-use asset and an imputed interest charge arising on the lease liability. This may result in lease expenses being recognized sooner under IFRS 16 than under previous guidance, however the impact is not anticipated to be material to the consolidated income statement.
- Under IFRS 16, the lease expense will be replaced by depreciation and interest charges, which will be excluded from our key performance metric, EBITDA. The impact is anticipated to be an improvement in EBITDA of approximately £1,700,000 in 2019.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained losses at 1 January 2019, with no restatement of comparative information.

1. Accounting policies continued

Accounting standards adopted in the period

IFRS 15, *Revenue from Contracts with Customers* ('IFRS 15')

The Group adopted IFRS 15 with a date of initial application of 1 January 2018. The revenue recognition accounting policy applied in preparation of the results for the year ended 31 December 2018 therefore reflects the application of IFRS 15. The Group has elected to adopt the standard using the cumulative effect transition method. Under this transition method, the new standard has been applied as at the date of initial application without restatement of comparative amounts. The cumulative effect of initially applying the new standard (to revenue, costs and tax) is recorded as an adjustment to the opening balance of equity at the date of initial application. The comparative information has not been adjusted and therefore continues to be reported under IAS 18, 'Revenue Recognition'.

The new standard requires application of five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies the performance obligation. The most significant impact of application of the standard relates to our assessment of performance obligations and percentage of completion in respect of our clinical trial service revenue. Prior to application of IFRS 15, the revenue attributable to performance was determined based on both input and output methods of measurement. We have concluded that under the new standard, a clinical trial is a single performance obligation satisfied over time i.e. the full service obligation in respect of a clinical trial (including those services performed by investigators and other parties) is considered a single performance obligation. Promises offered to the customer are not distinct within the context of the contract. We have concluded that the Group is the contract principal in respect of both direct services and in the use of third parties (principally investigator services) that support the clinical research trial. The transaction price is determined by reference to the contract or change order value (total service revenue and pass-through/reimbursable expenses) adjusted to reflect a realisable contract value. Revenue is recognized as the single performance obligation is satisfied. The progress towards completion for clinical service contracts is measured therefore based on an input measure being project costs incurred to date as a proportion of total project costs (inclusive of third party costs) at each reporting period.

The reimbursement revenues are also not presented separately from service fee revenue under IFRS 15 because the reimbursement revenues and the service fees are considered as a single performance obligation.

The cumulative effect of initially applying the IFRS 15 as of 1 January 2018 is as follows:

	Under IFRS 15 £000s	Adjustment £000s	Under IAS 18 £000s
Non-current assets			
Goodwill	15,269	–	15,269
Other intangible assets	20,229	–	20,229
Property, plant and equipment	1,078	–	1,078
Equity investments at fair value through profit and loss	754	–	754
Deferred tax asset	1,613	–	1,613
	38,943	–	38,943
Current assets			
Trade and other receivables	16,807	–	16,807
Other current assets	502	–	502
Accrued income	2,836	(393)	2,443
Cash and cash equivalents	3,218	–	3,218
	23,363	(393)	22,970
Total assets	62,306	(393)	61,913
Current liabilities			
Borrowings	(12)	–	(12)
Trade and other payables	(10,717)	–	(10,717)
Contingent and deferred consideration	(1,957)	–	(1,957)
Deferred revenue	(3,587)	2,611	(976)
Current tax liability	(201)	–	(201)
Total current liabilities	(16,474)	2,611	(13,863)
Net current assets	6,889	2,218	9,107
Non-current liabilities			
Borrowings	(6)	–	(6)
Contingent and deferred consideration	(9,804)	–	(9,804)
Deferred tax liability	(3,411)	14	(3,397)
Total liabilities	(29,695)	2,625	(27,070)
Net assets	32,611	2,232	34,843
Equity			
Share capital	428	–	428
Share premium account	20,616	–	20,616
Merger reserve	11,008	–	11,008
Share-based payment reserve	2,674	–	2,674
Translation reserve	762	–	762
Retained earnings	(2,877)	2,232	(645)
Total equity	32,611	2,232	34,843

1. Accounting policies continued

The impact of adopting IFRS 15 on the consolidated balance sheet for the year ended 31 December 2018 compared to the revenue determined in accordance with IAS 18, Revenue ('IAS 18') is as follows:

	As reported £000s	Adjustment £000s	Under IAS 18 £000s
Non-current assets			
Goodwill	13,659	–	13,659
Other intangible assets	3,740	–	3,740
Property, plant and equipment	1,344	–	1,344
Equity investments at fair value through profit and loss	2,065	–	2,065
Deferred tax asset	581	–	581
	21,389	–	21,389
Current assets			
Trade and other receivables	16,429	–	16,429
Accrued income	3,857	(651)	3,206
Cash and cash equivalents	5,189	–	5,189
	25,475	(651)	24,824
Total assets	46,864	(651)	46,213
Current liabilities			
Borrowings	(6)	–	(6)
Trade and other payables	(10,989)	–	(10,989)
Contingent and deferred consideration	(119)	–	(119)
Deferred revenue	(5,651)	3,746	(1,905)
Current tax liability	(422)	–	(422)
Total current liabilities	(17,187)	3,746	(13,441)
Net current assets	8,288	3,095	11,383
Non-current liabilities			
Provisions	(216)	–	(216)
Contingent and deferred consideration	(544)	–	(544)
Deferred tax liability	(554)	42	(512)
Total liabilities	(18,501)	3,788	(14,713)
Net assets	28,363	3,137	31,500
Equity			
Share capital	452	–	452
Share premium account	24,458	–	24,458
Merger reserve	11,088	–	11,088
Share-based payment reserve	3,356	–	3,356
Translation reserve	882	49	931
Retained earnings	(11,873)	3,088	(8,785)
Total equity	28,363	3,137	31,500

The impact of adopting IFRS 15 on the consolidated income statement for the year ended 31 December 2018 compared to the revenue determined in accordance with IAS 18 is as follows:

	As reported £000s	Adjustment £000s	Under IAS 18 £000s
Net service revenue	54,112	(7,261)	46,851
Reimbursement revenue	–	8,091	8,091
Revenue	54,112	830	54,942
Cost of sales	(26,767)	–	(26,767)
Reimbursable expenses	(8,091)	–	(8,091)
Gross profit	19,254	830	20,084
Selling, general and administration expenses			
Selling, general and administration expenses comprises:	(28,152)	–	(28,152)
Other selling, general and administration expenses	(16,701)	–	(16,701)
Amortisation of acquired fair valued intangible assets	(1,286)	–	(1,286)
Share-based payment charge	(758)	–	(758)
Acquisition-related contingent compensation	(972)	–	(972)
Change in the fair value of contingent consideration for acquisitions	233	–	233
Acquisition costs	(174)	–	(174)
Exceptional items	(8,494)	–	(8,494)
Research and development	(1,578)	–	(1,578)
Net impairment losses on financial and contract assets	(9)	–	(9)
Other operating income	39	–	39
Operating loss	(10,446)	830	(9,616)
Investment income	23	–	23
Unrealised gains on equity investments	277	–	277
Finance costs	(622)	–	(622)
Loss before taxation	(10,768)	830	(9,938)
Taxation	1,788	26	1,814
Loss for the year	(8,980)	856	(8,124)
Loss per share			
Basic	(20.0)p		(18.1)p
Diluted	(20.0)p		(18.1)p

1. Accounting policies continued

The impact of adopting IFRS 15 on the consolidated cash flow statement for the year ended 31 December 2018 compared to the revenue determined in accordance with IAS 18 is as follows:

	As reported £000s	Adjustment £000s	Under IAS 18 £000s
Cash flows from operating activities			
Loss before taxation	(10,768)	830	(9,938)
Adjustment for:			
Amortisation and depreciation	2,534	–	2,534
Impairment of goodwill and intangibles	18,222	–	18,222
Gain on disposal of fixed assets	33	–	33
Share-based payment charge	758	–	758
Equity investments received in exchange for services provided	(1,054)	–	(1,054)
Change in the fair value of contingent consideration for acquisition	(11,617)	–	(11,617)
Investment income	(300)	–	(300)
Finance costs	622	–	622
Operating cash flow before changes in working capital and provisions	(1,570)	830	(740)
Increase in trade and other receivables	(505)	266	(239)
Increase in other current assets	(248)	–	(248)
Increase in trade and other payables	3,221	(1,096)	2,125
Cash generated from operations	898	–	898
Taxation received	146	–	146
Net cash inflow from operating activities	1,044	–	1,044
Investing activities			
Investment income received	5	–	5
Acquisition of intangible assets	(753)	–	(753)
Acquisition of property, plant and equipment	(834)	–	(834)
Receipts from sale of property, plant and equipment	7	–	7
Acquisition of subsidiaries, net of cash acquired	(410)	–	(410)
Acquisition related earn-out paid	(751)	–	(751)
Net cash outflow from investing activities	(2,736)	–	(2,736)
Financing activities		–	
Issue of new shares	3,973	–	3,973
Expenses of fundraising	(183)	–	(183)
Finance costs paid	(4)	–	(4)
Repayment of borrowings	(12)	–	(12)
Net cash inflow from financing activities	3,774	–	3,774
Net increase in cash and cash equivalents	2,082	–	2,082
Effect of foreign currency on cash balances	(111)	–	(111)
Cash and cash equivalents at start of the year	3,218	–	3,218
Cash and cash equivalents at end of year	5,189	–	5,189

IFRS 9, *Financial Instruments* ('IFRS 9')

IFRS 9 replaces the previous guidance relating to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out below. In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated. The adoption of IFRS 9 had no impact on the opening balance sheet or the retained losses of the Group.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The primary effects resulting from this reclassification are that the Group's investments in privately held companies of £754,000, which were previously held at amortised cost due to an exemption available under the previous guidance, are now measured at fair value through the profit and loss. This did not have a material impact on the consolidated financial statements.

One of the privately-held investments, Asarina Pharma AB, a co-development partner, completed a public offering and listing on the Nasdaq First North Exchange in 2018 and subsequently the investment in equity was publicly traded.

(ii) Impairment of financial assets

The Group's financial assets held at amortised cost are subject to IFRS 9's new expected credit loss model. The Group's financial assets held at amortised cost are trade receivables, accrued income and cash and cash equivalents. Applying the expected credit risk model resulted in the recognition of a loss allowance of £9,000 as at 31 December 2018.

Re-statement of prior year consolidated income statement

There has been a re-allocation of costs between Cost of sales and Selling, general and administration expenses resulting in a re-statement of the income statement for the year ended 31 December 2017. This change in allocation arises as a result of improved systems and visibility on personnel utilisation and associated costs and is required to enable comparisons between the current and prior periods.

The impact on the consolidated income statement is set out below.

	2017 Previously reported £000s	Adjustment £000s	2017 Re-stated £000s
Net service revenue	39,645	–	39,645
Licence revenue	370	–	370
Reimbursement revenue	7,609	–	7,609
Revenue	47,624	–	47,624
Cost of sales	(25,394)	2,996	(22,398)
Reimbursable expenses	(7,609)	–	(7,609)
Gross profit	14,621	2,996	17,617
Administrative expenses	(15,954)	(2,996)	(18,950)
Administrative expenses comprises:			
Other administrative expenses	(9,725)	(2,996)	(12,721)
Amortisation of acquired fair valued intangible assets	(1,167)	–	(1,167)
Share-based payment charge	(1,033)	–	(1,033)
Acquisition-related contingent compensation	(752)	–	(752)
Change in the fair value of contingent consideration for acquisitions	(2,875)	–	(2,875)
Acquisition costs	(259)	–	(259)
Exceptional items	(143)	–	(143)
Research and development	(2,689)	–	(2,689)
Other operating income	118	–	118
Operating loss	(3,904)	–	(3,904)
Investment revenues	3	–	3
Finance costs	(546)	–	(546)
Loss before taxation	(4,447)	–	(4,447)
Taxation	(57)	–	(57)
Loss for the year	(4,504)	–	(4,504)

Loss per share, basic and diluted, consolidated balance sheet and consolidated statement of cash flows have not been restated.

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

1. Accounting policies continued

Business combinations

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

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

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

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 fair value 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 (prior to the adoption of IFRS 9 on 1 January 2018)

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.

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 reporting 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 (prior to the adoption of IFRS 9 on 1 January 2018)

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.

1. Accounting policies continued

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 instruments (after the adoption of IFRS 9 on 1 January 2018)

On 1 January 2018, the Group adopted new guidance on financial instruments included in IFRS 9.

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

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

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from them have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. The Group has elected to present fair value gains and losses on equity investments in the profit and loss. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

(iv) Impairment

Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on historical credit losses as a percentage of revenues adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance as at 31 December 2018 was determined as follows for both trade receivables and contract assets:

	Group			Company		
	Expected credit losses	Trade receivables before allowance for losses £000s	Allowance for losses £000s	Expected credit losses	Trade receivables before allowance for losses £000s	Allowance for losses £000s
Current	0.0%	7,343	–	0.0%	3,140	–
Less than 30 days overdue	0.0%	2,955	–	0.0%	402	–
31 to 60 days overdue	0.5%	699	(3)	0.5%	43	–
61 to 90 days overdue	0.5%	264	(1)	0.5%	82	–
More than 90 days overdue	1.0%	483	(5)	1.0%	110	(1)
		11,744	(9)		3,777	(1)

Cash and cash equivalents

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no material impairment loss was identified.

1. Accounting policies continued

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 value of 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 FVPL' 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.

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.

Fair value measurements

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

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

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

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

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During the year ended 31 December 2018, the equity investment in Asarina Pharma AB transferred from level 3 to level 1 of the fair value hierarchy due to Asarina becoming a publicly traded entity during the period. For transfers into and out of level 3 measurements, see note 32.

Assets and liabilities that are measured at fair value on a recurring basis, including equity investments and contingent consideration, are described in note 32. During the year ended 31 December 2018, goodwill and intangible assets were measured at fair value after initial recognition due to the assets being impaired during the period. The fair value measurement of the assets would be categorised in level 3 of the fair value hierarchy.

Revenue recognition

Revenue from contracts with customers (after the adoption of IFRS 15 on 1 January 2018)

The Group adopted IFRS 15 with a date of initial application of 1 January 2018. The revenue recognition accounting policy applied in preparation of the results for the year ended 31 December 2018 therefore reflects the application of IFRS 15. The Group has elected to adopt the standard using the cumulative effect transition method. Under this transition method, the new standard has been applied as at the date of initial application without restatement of comparative amounts. The cumulative effect of initially applying the new standard (to revenue, costs and tax) is recorded as an adjustment to the opening balance of equity at the date of initial application. The comparative information has not been adjusted and therefore continues to be reported under IAS 18, 'Revenue Recognition'.

The new standard requires application of five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies the performance obligation.

The Group primarily earns revenue from clinical research organisation ('CRO') services and pharmacovigilance ('PV') services.

Clinical Research Organisation services

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

The service fees for CRO services are invoiced based on activities or milestones. Third party costs are invoiced to customers shortly after they are incurred. Significant accrued income and deferred revenue can arise for the CRO services because the invoicing in any accounting period may not represent the value of the services provided.

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

Changes in contract balances typically arise due to:

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

Pharmacovigilance (PV) services

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

Accrued income or deferred revenue may arise if a contract contains upfront or milestone payments.

Revenue recognition (prior to the adoption of IFRS 15)

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.

1. Accounting policies continued

Reimbursement revenue and reimbursable expenses (prior to the adoption of IFRS 15)

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 life cycle 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.

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 the functional currency at the rates of exchange ruling at the reporting 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 reporting date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions.

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.

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

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

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 £11,866,000 (2017: £4,050,000).

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 from contracts with customers (after the adoption of IFRS 15)
The accounting policy for revenue from contracts with customers (after the adoption of IFRS) is detailed above.

There are significant management judgements and estimates involved in the recognition of revenue for the CRO contracts. Revenue for CRO services is recognised based on the costs incurred on a project as a proportion of total expected costs to determine a percentage of completion which is applied to the estimate of the transaction price. The most significant judgement involved in determining the revenue is the assessment of percentage of completion. The percentage of completion for the CRO contracts is measured based on an input measure being total project costs (inclusive of third party costs) at each reporting period. Assessment of the percentage of completion requires an evaluation of labour cost and third party costs incurred on the project at the reporting date, which requires an estimate of third party costs incurred but not billed, and an up to date evaluation of the forecast costs to complete in respect of these projects. Given the long-term nature of the clinical trials, and the complex nature of those trials, the forecast costs to complete is judgemental. The costs to complete are prepared by project managers on a recurring basis during the year and are subject to internal reviews, including comparison to previous forecasts and past experience.

Material differences in the amount of revenue in any given period may result if these judgements or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgements and estimates.

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

Revenue recognition (prior to the adoption of IFRS 15)

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 expected credit loss over the lifetime of the trade receivables. This analysis includes grouping the trade receivables based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical losses adjusted to reflect current and forward looking information affecting the customers' ability to settle the receivable. The accrued income for unbilled work in progress has substantially the same risk characteristics as the trade receivables and similar expected loss rates have been applied. The provision against trade receivables and accrued income was £9,000 (2017: £214,000) and £nil (2017: £nil) as at 31 December 2018 (note 21).

Company

In determining the level of provisioning for bad debts, the Directors have considered the expected credit loss over the lifetime of the trade receivables. This analysis includes grouping the trade receivables based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical losses adjusted to reflect current and forward looking information affecting the customers' ability to settle the receivable. The contract assets for unbilled work in progress has substantially the same risk characteristics as the trade receivables and similar expected loss rates have been applied. The provision against trade receivables as at 31 December 2018 was £9,000 (2017: £212,000) (note 21).

During the year ended 31 December 2018, the Company determined that the intercompany receivable due from Haemostatix Limited a wholly owned subsidiary will not be repaid and an allowance for losses of £7,949,000 against intercompnay trade receivables has been recognised as at 31 December 2018.

Impairment of goodwill

Under IFRSs, goodwill is reviewed for impairment at least annually. The Group tests goodwill on 31 December each year. Goodwill is impaired if the carrying value of the cash-generating unit including the goodwill is in excess of the recoverable amount, which is the higher of the value in use and the fair value less costs to sell for that cash-generating unit. The calculation of the recoverable amount requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to determine whether the recoverable amount is greater than the carrying value.

The 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. See note 15 for further details.

The impairment provision against goodwill as at 31 December 2018 was £2,143,000 (2017: £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 may engage third party qualified valuers to perform the valuation. The Directors work closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model. This includes contingent consideration relating to acquisitions valued at £544,000.

Contingent consideration relates to the acquisitions of Haemostatix and PSR (note 26). The contingent consideration for Haemostatix comprises milestones of up to £4.0 million at start of Phase III (dependent on the Company's market capitalisation); plus £16.0 million sales-based milestone payments and an additional sum in the event that the enlarged group is able to utilise certain existing tax losses that are currently available to Haemostatix. The contingent consideration for Haemostatix was revalued to £nil at 31 December 2018 giving rise to a decrease in value of £11,617,000 reflecting the change in the Group's strategy for the development of Haemostatix.

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 on the date of grant 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

The group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	2018 £000s	2017 £000s
CRO services	**26,580**	24,782
Licence revenue	**–**	370
PV services	**27,532**	22,472
	54,112	47,624

The provision of PV services includes the revenues of Harefield Pharmacovigilance Ltd and Pharmacovigilance Services Ltd following their acquisition by the Group in 2018.

Geographical information

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

2018

	Revenue from external customers		
	CRO £000s	PV £000s	Total £000s
UK	**5,715**	**6,854**	**12,569**
Rest of Europe, Middle East and Africa	**16,913**	**9,604**	**26,517**
North America	**3,715**	**10,735**	**14,450**
Asia	**237**	**244**	**481**
Australia	**–**	**95**	**95**
	26,580	**27,532**	**54,112**

2017

	Revenue from external customers		
	CRO £000s	PV £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

The contract assets and liabilities as of 1 January 2018 and 31 December 2018 are as follows:

	31 December 2018 £000s	1 January 2018 £000s
Accrued income	**3,857**	2,836
Allowance for losses	**–**	–
	3,857	2,836
Deferred revenue	**(5,651)**	(3,587)

Revenue recognised that was included in the deferred revenue balance at the beginning of the period was £3,587,000. There were no significant amounts of revenue recognised in the year ended 31 December 2018 arising from performance obligations satisfied in previous periods.

The aggregate amount of the transaction price allocated to clinical research service contracts that are partially or fully unsatisfied as at 31 December 2018 was £68,982,000. Management currently expects that approximately 40% will be recognised as revenue during the next financial year, approximately 25% in 2020 and the remaining thereafter.

4. Operating segments

Products and services from which reportable segments derive their revenues

Information reported to the Group's Executive Chairman, 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 CRO (previously named Clinical Research Services) and PV (previously named Drug Safety and Medical Information). All revenues arise from direct sales to customers. The segment information reported below all relates to continuing operations. The PV segment includes the revenues of Harefield Pharmacovigilance Ltd and Pharmacovigilance Services Ltd following their acquisition by the Group in 2018.

2018

For the year ended 31 December 2018, the accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1, with the exception that the information reported to the CODM was prior to the effect of adopting IFRS 15. Segment profit represents the gross profit earned by each segment. Other amounts, including selling, general and administration expenses were not allocated to a segment in 2018. This was the measure reported to the Group's Executive Chairman for the purpose of resource allocation and assessment of segment performance.

	CRO £000s	PV £000s	IFRS 15 adjustments £000s	Consolidated total £000s
Net service revenue	19,713	27,138	7,261	54,112
Reimbursement revenue	7,697	394	(8,091)	–
Segment revenues	27,410	27,532	(830)	54,112
Cost of sales	(12,172)	(14,616)	–	(26,788)
Reimbursable expenses	(7,744)	(326)	–	(8,070)
Segment gross profit	7,494	12,590	(830)	19,254
Selling, general & administration expenses				(28,152)
Selling, general and administration expenses comprises:				
Other selling, general and administration expenses				(16,701)
Amortisation of acquired fair valued intangible assets				(1,286)
Share-based payment charge				(758)
Acquisition-related contingent compensation				(972)
Change in the fair value of contingent consideration for acquisitions				233
Acquisition costs				(174)
Exceptional items				(8,494)
Research and development				(1,578)
Net impairment of financial and contract assets				(9)
Other operating income				39
Operating loss				(10,446)
Investment income				23
Unrealised gains on equity investments				277
Finance costs				(622)
Loss before tax				(10,768)

2017

For the year ended 31 December 2017, 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 was the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

	CRO £000s	PV £000s	Consolidated total £000s
Net service revenue	17,386	22,259	39,645
Licence fee revenue	370	–	370
Reimbursement revenue	7,396	213	7,609
Segment revenues	25,152	22,472	47,624
Cost of sales	(10,616)	(11,782)	(22,398)
Reimbursable expenses	(7,396)	(213)	(7,609)
Segment gross profit	7,140	10,477	17,617
Selling, general & administration expenses			(19,784)
Selling, general and administration expenses comprises:			
Other selling, general and administration expenses			(13,555)
Amortisation of acquired fair valued intangible assets			(1,167)
Share-based payment charge			(1,033)
Acquisition-related contingent consideration			(752)
Change in the fair value of contingent consideration for acquisitions			(2,875)
Acquisition costs			(259)
Exceptional items			(143)
Research and development			(2,689)
Net impairment of financial and contract assets			834
Other operating income			118
Operating loss			(3,904)
Investment income			3
Finance costs			(546)
Loss before tax			(4,447)

Segment net assets

	2018 £000s	2017 £000s
CRO	**2,450**	12,703
PV	**25,913**	22,140
Consolidated total net assets	**28,363**	34,843

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

Other segment information

	Impairment of goodwill and intangibles		Depreciation and amortisation		Additions to non-current assets	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s	2018 £000s	2017 £000s
CRO	**17,343**	–	**1,019**	727	**780**	603
PV	**–**	–	**1,515**	899	**806**	822
	17,343	–	**2,534**	1,626	**1,586**	1,425

Information about major customers

In 2018, the Group had no customer (2017: one) that contributed 10% or more to the Group's revenue. Revenues of approximately £4,989,000 (2017: £4,989,000) were recognised from this customer for CRO services in the year ended 31 December 2017.

5. Loss for the year

	2018 £000s	2017 £000s
Loss for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment – owned	**541**	423
Depreciation of property, plant and equipment – leased	**8**	4
Amortisation of intangible assets	**698**	32
Depreciation and amortisation charges within selling, general and administration expenses	**1,247**	459
Amortisation of acquired fair valued intangible assets	**1,286**	1,167
Goodwill impairment charge	**2,143**	–
Intangible impairment charge	**15,200**	–
Impairment of other assets	**879**	–
Exchange (gain)/loss	**(88)**	526
Loss/(gain) on disposals of property, plant and equipment	**33**	(7)
Bad debt provision (reversed)/made during the year (note 21)	**9**	(834)
Staff costs (note 12)	**28,799**	19,581

6. Auditor's remuneration

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

	2018 £000s	2017 £000s
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts		
Audit fees	**170**	161
Non-audit fees		
– Interim review	**34**	33
– Other	**13**	–
Total non-audit fees	**47**	33

Fees payable to the auditor 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. Acquisition-related contingent compensation

	2018 £000s	2017 £000s
PSR	**–**	1
PharmInvent	**972**	751
	972	752

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 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 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

	2018 £000s	2017 £000s
Acquisition of PSR	**–**	218
Acquisition of Harefield Pharmacovigilance	**3**	–
Acquisition of Pharmacovigilance Services	**7**	–
Other M&A activities	**164**	41
	174	259

9. Exceptional items

	2018 £000s	2017 £000s
Establishment of pharmacoepidemiology business	356	–
Cost reduction programme	760	–
Business reorganisation	557	–
Impairment of Haemostatix goodwill	2,143	–
Impairment of Haemostatix in process research and development	15,200	–
Impairment of Haemostatix other assets	834	–
Revaluation of Haemostatix contingent consideration	(11,617)	–
Onerous contract provision	216	–
Impairment of investment	45	–
Severance costs relating to former CEO	–	143
	8,494	143

In line with the way the Board and CODM review the business, large one-off exceptional costs are shown as exceptional items.

In the year ended 31 December 2018, these related to the establishment of the pharmacoepidemiology business, reorganisation expenses associated with the combining of the PrimeVigilance and PharmInvent businesses, the cost reduction programme to increase operating efficiency and improve overall profitability, the impairment of the Haemostatix business (see note 15 and note 16) and the change in fair value of the Haemostatix contingent consideration and onerous contract costs relating to Haemostatix.

In the year ended 31 December 2017, the exceptional items were directly related to the severance costs regarding the former CEO.

10. Investment income

	2018 £000s	2017 £000s
Bank and other interest	23	3

11. Finance costs

	2018 £000s	2017 £000s
Loan and other interest payable	3	2
Reversal of finance charges	–	(37)
Finance charge for contingent consideration for acquisitions	619	581
	622	546

The finance charge for contingent consideration for acquisitions relates to the unwind of the discount used in the fair valuation of contingent 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:

	2018 Number	2017 Number
Administration	95	78
Project staff	572	453
Management	30	25
Directors	5	4
	702	560

12. Employees continued

Employment costs

	2018 £000s	2017 £000s
Wages and salaries	**23,123**	16,651
Social security costs	**4,297**	2,607
Other pension costs (note 37)	**621**	323
Acquisition-related contingent compensation	**972**	752
Severance costs included in exceptional items	**1,307**	140
Share-based payment expense (note 31)	**758**	1,033
	31,078	21,506

Disclosures relating to key management personnel are included within the Directors' remuneration report on page 31.

13. Taxation

	2018 £000s	2017 £000s
Current tax		
UK corporation tax credit for the year	**(92)**	–
Overseas corporation tax	**503**	426
Adjustment in respect of prior years	**(383)**	(31)
Current tax charge for the year	**28**	395
Deferred tax		
Origination and reversal of temporary differences	**(2,718)**	(338)
Derecognition of deferred tax asset	**902**	–
Total deferred tax (credit)/charge	**(1,816)**	(338)
Total tax (credit)/charge for the year	**(1,788)**	57

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:

	2018 £000s	2017 £000s
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**16**	(60)
Total income tax debit/(credit) recognised directly in equity	**16**	(60)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2017: 19%). The actual tax charges for the years differ from the standard rate for the reasons set out in the following reconciliation.

	2018 £000s	2017 £000s
Loss before taxation	**(10,768)**	(4,447)
Tax on loss before tax at blended standard rate of 19% (2017: 19.25%)	**(2,046)**	(856)
Non-deductible expenses	**654**	1,008
Additional allowable expenses	**(1,700)**	(180)
Derecognition of deferred tax asset (see note 20)	**902**	–
R&D tax credit receivable	**(76)**	–
Adjustments to previous periods	**(383)**	(31)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(6)**	(2)
Tax losses surrendered for R&D tax credit relief	**100**	–
Increase in unrecognised tax losses	**767**	109
Translation effect	**–**	9
Tax (credit)/charge for the year	**(1,788)**	57

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

14. Loss per share

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

	2018 £000s	2017 £000s
Loss for the purposes of basic earnings per share being net profit attributable to owners of the Company	**(8,980)**	(4,504)
Loss for the purposes of diluted earnings per share	**(8,980)**	(4,504)

	2018 £000s	2017 £000s
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**44,693,699**	41,086,201
Shares to be issued in settlement of contingent consideration	**158,810**	101,163
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**44,852,509**	41,187,364
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**44,852,509**	41,187,364
Loss per share		
Basic	**(20.0)p**	(11.0)p
Diluted	**(20.0)p**	(11.0)p

In 2019, 158,810 Ordinary Shares will be issued to part satisfy the third and final component of contingent consideration for PharmInvent. For the purposes of determining the denominator for basic earnings per share contingent shares are included from the beginning of the period in which the contingency is met. The contingency relating to these contingent shares was met at 31 December 2018 and therefore they have been included within the denominator for basic earnings per share.

The following potential outstanding shares have been excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share because they are anti-dilutive:

	2018 Number	2017 Number
Share options	**5,397,874**	2,056,583
Contingent consideration	**67,371**	111,870

The contingent shares of 67,371 in 2018 relate to the current estimate of the number of shares to be issued as contingent consideration for the acquisition of PSR (note 26).

15. Goodwill

Group

	£000s
Cost	
At 1 January 2017	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**
Arising on acquisition of subsidiaries (note 34)	**438**
Translation movement	**95**
At 31 December 2018	**15,802**
Accumulated impairment losses	
At 1 January 2017 and 31 December 2017	**–**
Impairment of Haemostatix goodwill	**(2,143)**
At 31 December 2018	**(2,143)**
Net book value	
At 31 December 2018	**13,659**
At 31 December 2017	15,269

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

15. Goodwill continued

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:

	2018 £000s	2017 £000s
CRO		
Ergomed Virtuoso	**533**	506
Haemostatix	**–**	2,143
Ergomed CDS	**577**	568
PSR	**2,602**	2,564
	3,712	5,781
PV	**9,947**	9,488
	13,659	15,269

The goodwill associated with the PV segment has arisen from the acquisitions of PrimeVigilance, Sound Opinion, PharmInvent, Harefield Pharmacovigilance and Pharmacovigilance Services. The goodwill arising on these acquisitions has been allocated to the PV operating segment because the synergies and other benefits associated with the acquisitions will benefit the operating segment as a whole and the businesses trade as a single cash-generating unit.

Impairment

The Group tests goodwill for impairment annually on 31 December, or more frequently, if there are indications that goodwill might be impaired. Goodwill is impaired if the carrying value of the cash-generating unit including the goodwill is in excess of the recoverable amount, which is the higher of the value in use and the fair value less costs to sell for that cash-generating unit.

The recoverable amounts of the CGUs for Ergomed Virtuoso, Ergomed CDS, PSR and the PV operating segment are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding cash flows, discount rates and growth rates.

Value in use assumptions

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

A discount rate of 19% has been used in the assessment, which reflects current market assessments of the time value of money and the risks specific to the CGUs.

Haemostatix

The Group acquired Haemostatix in 2016 and recognised goodwill of £2,143,000 and in process R&D for ReadyFlow and Peprostat of £15,200,000. Haemostatix is a separate cash-generating unit for the purposes of goodwill impairment. During 2018, the Group shifted strategy away from co-development arrangements and development of Haemostatix to focus on provision of services. The Group has continued to make incremental investment in Haemostatix during 2018 so as to protect the intellectual property and to maintain readiness for Phase III trials but the Group considers the fair value of the Haemostatix assets to be nil. In parallel, in late 2018 the Company appointed external advisers to find a partner (or partners) to fund Phase III trials and manufacturing scale-up. Negotiations with interested parties are progressing but management does not consider they are sufficiently advanced, nor providing sufficient certainty to support a fair value less costs to sell for the purposes of the goodwill impairment. Consequently, the goodwill and intangible assets within the Haemostatix cash-generating unit have been impaired to the recoverable amount of nil resulting in an impairment of goodwill of £2,143,000 and an impairment of intangibles of £15,200,000 as at 31 December 2018.

As a consequence of this impairment, certain costs committed as at 31 December 2018 amounting to £216,000 and the impairment charges, have been included in exceptional items in 2018.

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 2017	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
Additions	753	–	–	–	–	–	753
Translation movement	17	(19)	(30)	5	–	(26)	(53)
At 31 December 2018	**2,948**	**1,259**	**3,431**	**818**	**15,200**	**419**	**24,075**
Amortisation							
At 1 January 2017	129	695	867	153	–	98	1,942
Charge for the year	32	246	681	72	–	168	1,199
Translation movement	5	–	–	–	–	–	5
At 31 December 2017	166	941	1,548	225	–	266	3,146
Charge for the year	698	286	742	105	–	153	1,984
Impairment charge	–	–	–	–	15,200	–	15,200
Translation movement	5	–	–	–	–	–	5
At 31 December 2018	**869**	**1,227**	**2,290**	**330**	**15,200**	**419**	**20,335**
Net book value							
At 31 December 2018	**2,079**	**32**	**1,141**	**488**	**–**	**–**	**3,740**
At 31 December 2017	2,012	337	1,913	588	15,200	179	20,229

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 £115,000 (2017: £1,683,000). The software is currently still under construction and so no amortisation has been recognised in the current year.

In the year ended 31 December 2018, the goodwill, in process R&D for ReadyFlow and Peprostat of £15,200,000 and other assets were impaired to £nil (see note 15).

Company

	Software £000s
Cost	
At 1 January 2017	244
Translation movement	12
Additions	278
At 31 December 2017	534
Translation movement	15
Additions	538
At 31 December 2018	**1,087**
Amortisation	
At 1 January 2017	91
Charge for the year	3
Translation movement	4
At 31 December 2017	98
Charge for the year	164
Translation movement	4
At 31 December 2018	**266**
Net book value	
At 31 December 2018	**821**
At 31 December 2017	436

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 2017	80	167	232	876	45	1,400
Additions	19	109	61	521	11	721
Acquired with subsidiaries (note 34)	–	5	–	27	–	32
Re-allocation from Intangible assets	–	(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
Additions	194	190	107	342	1	834
Acquired with subsidiaries (note 34)	–	–	–	2	–	2
Re-allocations	–	2	–	(2)	–	–
Disposals	(50)	(14)	(72)	(79)	–	(215)
Translation movement	–	7	5	33	–	45
At 31 December 2018	**246**	**472**	**359**	**1,736**	**57**	**2,870**
Depreciation						
At 1 January 2017	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
Charge for the year	23	52	86	378	11	550
Disposals	(45)	(12)	(45)	(73)	–	(175)
Translation movement	–	2	2	21	–	25
At 31 December 2018	**39**	**159**	**178**	**1,119**	**31**	**1,526**
Net book value						
At 31 December 2018	**207**	**313**	**181**	**617**	**26**	**1,344**
At 31 December 2017	41	170	184	647	36	1,078

Company

	Fixtures and fittings £000s	Computer equipment £000s	Total £000s
Cost			
1 January 2017	20	47	67
Additions	40	60	100
Translation movement	2	3	5
At 31 December 2017	62	110	172
Additions	1	23	24
Translation movement	1	2	3
At 31 December 2018	**64**	**135**	**199**
Depreciation			
1 January 2017	13	30	43
Charge for the year	10	20	30
Translation movement	2	1	3
At 31 December 2017	25	51	76
Charge for the year	8	39	47
Translation movement	1	1	2
At 31 December 2018	**34**	**91**	**125**
Net book value			
At 31 December 2018	**30**	**44**	**74**
At 31 December 2017	37	59	96

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

Group

	Motor Vehicles £000s
Net book value	
At 31 December 2018	**37**
At 31 December 2017	39
Depreciation charge for the year	
Year ended 31 December 2018	**8**
Year ended 31 December 2017	6

Company

As at 31 December 2018, 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:

Principal activity	Place of incorporation and operation	Number of wholly owned subsidiaries 2018	2017
CRO services	Germany	**2**	2
CRO services	Poland	**1**	1
CRO services	Serbia	**1**	1
CRO services	USA	**1**	1
CRO services	Croatia	**1**	1
CRO services	Russia	**1**	1
CRO services	Bosnia	**1**	1
CRO services	UAE	**1**	1
CRO and PV services	Switzerland	**1**	–
CRO services	Switzerland	**–**	1
CRO services	Taiwan	**1**	1
CRO services	Netherlands	**1**	1
PV services	United Kingdom	**4**	2
PV services	India	**1**	–
PV services	Germany	**1**	–
PV services	Croatia	**1**	1
PV services	Serbia	**1**	1
PV services	USA	**1**	1
PV services	Czech Republic	**2**	2
Research and development	United Kingdom	**1**	1
Dormant	United Kingdom	**1**	1

18. Subsidiaries continued

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

Company	Registered address
Ergomed GmbH	Herriotstraße 1, 60528 Frankfurt am Main, Germany
Ergomed Sp. z o.o.	Kolowa 8, 30-134 Krakow, Poland
Ergomed d.o.o. Beograd	Belgrade Office Park, Djordja Stanojevica 12, 5th Floor, Belgrade – New Belgrade, 11070 Serbia
Ergomed Clinical Research Inc	8207 Callaghan Rd. Suite 150, San Antonio, TX 78230, USA
Ergomed Istraživanja Zagreb d.o.o.	Oreškovićeva 20a, 10 020 Zagreb, Croatia
Ergomed Clinical Research LLC	125040, Moscow, 17 Skakovaya Street, Building 2, Office 2714, The Russian Federation
Ergomed d.o.o. Sarajevo	Zmaja od Bosne 7-7a, Sarajevo, Bosnia and Herzegovina
Ergomed Clinical Research FZ-LLC	Dubai International Academic City, Block N 03, Office N EO 05, P.O. Box 501708 I Dubai, UAE.
Ergomed Virtuoso Sarl	18, Avenue Lois-Casai, 1209 Geneva, Switzerland
Ergomed Clinical Research Co. Limited	Fl. 2, No. 467, Sec.6, Zhongxiao E Rd., Nangang District, Taipei City 115, Taiwan
Ergomed CDS GmbH	Im Mediapark 2, D-50670 Cologne, Germany
Ergomed Clinical Research Private Limited	Wing A, Level 4, Dynasty Business Park, Andheri-Kurla Road, Andheri (East) Mumbai – 400059, Maharashtra, INDIA; CIN: U73200MH2013PTC249804
PSR Group BV	Antareslaan 41, 2132 JE Hoofddorp, The Netherlands
PrimeVigilance Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
PrimeVigilance Zagreb d.o.o.	Oreškovićeva 20a, 10 020 Zagreb, Croatia
PrimeVigilance d.o.o. Beograd	Đorđa Stanojevića 14, Beograd – Novi Beograd, Serbia
PrimeVigilance Inc	Reservoir Place, 1601 Trapelo Road, Waltham, MA 02451, USA
PrimeVigilance GmbH	Herriotstraße 1, 60528 Frankfurt am Main , Germany
Sound Opinion Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
PrimeVigilance s.r.o.	Prague 3 – Vinohrady, Slezska 856/74, 13000, Czech Republic
PharmInvent regulatory s.r.o.	Prague 3 – Vinohrady, Slezska 856/74, 13000, Czech Republic
Harefield Pharmacovigilance Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
Pharmacovigilance Services Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom
Haemostatix Limited	BioCity Nottingham, Pennyfoot Street, Nottingham, NG1 1GF, United Kingdom
Ergomed Clinical Research Limited	1 Occam Court, Surrey Research Park, Guildford, GU2 7HJ, United Kingdom

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

Principal activity – CRO services	Place of incorporation and operation	Class	Holding
Ergomed GmbH	Germany	Ordinary	100%
Ergomed Spolka z o.o.[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	Ordinary	100%
Harefield Pharmacovigilance Limited[2]	United Kingdom	Ordinary	100%
Pharmacovigilance Services Limited[2]	United Kingdom	Ordinary	100%
PSR Group BV	Netherlands	Ordinary	100%

Principal activity – PV services	Place of incorporation and operation	Class	Holding
PrimeVigilance Limited	United Kingdom	Ordinary	100%
Sound Opinion Limited	United Kingdom	Ordinary	100%
PrimeVigilance s.r.o.	Czech Republic	Ordinary	100%
Ergomed Clinical Research Private Limited	India	Ordinary	99%

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

Principal activity – dormant	Place of incorporation and operation	Class	Holding
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 These companies were acquired by the Company in 2018 (note 34).

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

19. Investments

Investments in equity securities measured at fair value (after the adoption of IFRS 9 on 1 January 2018)

Group and Company

The following investments in equity securities have been designated as FVPL.

	Fair value at 1 January 2018 £000s	Additions £000s	Unrealised gains recognised in the income statement £000s	Impairment of investments £000s	Translation movement £000s	Fair value at 31 December 2018 £000s
Asarina Pharma AB	283	297	277	–	6	863
Modus Therapeutics Holdings AB	426	757	–	–	19	1,202
Ergomed Saudi Limited	45	–	–	(45)	–	
	754	1,054	277	(45)	25	2,065

Modus Therapeutics Holding AB ('Modus')

At 31 December 2018, the Group held a 5.9% holding in Modus. Under the co-development agreement with Modus, the Group receives shares in Modus in return for its contribution to the co-development programme. During the year ended 31 December 2018 shares valued at £757,000 (2017: £181,000) were issued to the Group in exchange for services provided by the Group.

Asarina Pharma AB ('Asarina')

At 31 December 2018, the Group held a 2.4% holding in Asarina. Under the co-development agreement with Asarina , the Group receives shares in Asarina in return for services provided to them under the co-development programme. During the year ended 31 December 2018, shares valued at £297,000 (2017: £280,000) were issued to the Group in exchange for services provided by the Group. In 2018, Asarina also completed a public offering and listing on the Nasdaq First North Exchange and subsequently the investment in equity was publicly traded.

Ergomed Saudi Limited

At 31 December 2018, the Group held a 50% holding in Ergomed Saudi Limited, which was impaired during the year ended 31 December 2018, reducing carrying value of the investment to £nil (2017: £45,000).

Investments in equity securities (prior to the adoption of IFRS 9)

Group and Company

	Asarina Pharma AB £000s	Modus Therapeutics Holding AB £000s	Ergomed Saudi Limited £000s	Total £000s
Cost				
At 1 January 2017	–	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 1 January 2017	–	–	–	–
Provision for impairment	–	–	–	–
At 31 December 2017	–	–	–	–
Net book value				
At 31 December 2017	283	426	45	754

Investments in subsidiaries

Company

	Shares in subsidiary undertakings £000s
Cost	
At 1 January 2017	33,811
Additions	3,649
Capital contribution to subsidiary undertakings	124
Translation movement	1,280
At 31 December 2017	38,864
Capital contribution to subsidiary undertakings	1,340
Impairments	(17,194)
Translation movement	575
At 31 December 2018	**23,585**

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 for financial reporting purposes:

Deferred tax assets

	Group			Company		
	Tax losses £000s	Other temporary differences £000s	Total £000s	Tax losses £000s	Other temporary differences £000s	Total £000s
1 January 2017	902	546	1,448	–	457	457
Acquired with subsidiaries	–	(58)	(58)	–	–	–
Credit to profit or loss	–	163	163	–	161	161
Credit direct to equity	–	60	60	–	60	60
At 31 December 2017	902	711	1,613	–	678	678
Charge to profit or loss	(902)	(125)	(1,027)	–	(92)	(92)
Debit direct to equity	–	(16)	(16)	–	(16)	(16)
Translation effect	–	11	11	–	11	11
At 31 December 2018	**–**	**581**	**581**	**–**	**581**	**581**

Included in the deferred tax arising on temporary differences, £565,000 (2017: £674,000) relates to a deferred tax asset arising on unexercised share options. In the year ended 31 December 2018, a deferred tax asset of £902,000 was derecognised, which related to tax losses carried forward in the Haemostatix business.

Deferred tax liabilities

	Group			Company		
	Annual capital allowances £000s	Other temporary differences £000s	Total £000s	Annual capital allowances £000s	Other temporary differences £000s	Total £000s
1 January 2017	(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)
Charge to profit or loss	37	2,806	2,843	–	–	–
At 31 December 2018	**(180)**	**(374)**	**(554)**	**(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	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Deferred tax assets	**581**	1,613	**581**	678
Deferred tax liabilities	**(554)**	(3,397)	**(12)**	(12)
Net deferred tax assets/(liabilities)	**27**	(1,784)	**569**	666

At 31 December 2018, the Group had unused tax losses of £9,265,000 (2017: £6,615,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2017: £5,324,000) of such losses. No deferred tax asset has been recognised in respect of losses of £9,265,000 (2017: £1,291,000) as it is not considered probable that there will be future profits available. These losses arise in the United Kingdom and can be carried forward indefinitely to be offset against future taxable profits, However this is restricted to an annual £5 million allowance in each standalone company or group and above this allowance, there will be a 50% restriction in the profits that can be covered by losses brought forward.

21. Trade and other receivables

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Trade receivables	11,735	13,390	3,776	6,743
Amounts receivable from Group companies	–	–	2,601	6,714
Other receivables	2,437	1,702	895	884
Prepayments	1,225	733	677	183
Corporation tax receivable	1,032	982	–	–
	16,429	16,807	7,949	14,524

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

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Less than 30 days overdue	2,955	3,293	402	1,252
31 to 60 days overdue	696	932	43	415
61 to 90 days overdue	263	403	82	109
More than 90 days overdue	478	2,180	110	1,956
	4,392	6,808	637	3,732

Movements in the allowance for losses for financial and contract assets are as follows:

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Balance at the beginning of the year	214	1,016	212	1,013
Impairment losses recognised	(214)	–	(212)	–
Provision (reversed)/made during the year	9	(834)	9	(833)
Translation movements	–	32	–	32
	9	214	9	212

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

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

22. Other current assets

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Clinical trial material	–	502	–	–

Other current assets relates to the preparation of GMP (Good Manufacturing Practice) material for use in the clinical development programmes of Haemostatix Limited, which has been impaired in the year ended 31 December 2018.

23. Cash and cash equivalents

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Cash at bank	**5,189**	3,218	**1,250**	288

The effective interest rate at the balance sheet date on cash at bank was 0.0011% (2017: 0.005%).

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

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
GBP	**876**	185	**164**	67
Euro	**2,126**	1,890	**943**	200
USD	**1,061**	383	**148**	1
Other	**1,126**	760	**15**	20
	5,189	3,218	**1,270**	288

24. Borrowings

Group

	2018		2017	
	Capital £000s	Interest £000s	Capital £000s	Interest £000s
Secured borrowings at amortised cost				
Finance leases				
Borrowings within one year	**6**	**–**	12	1
Between one and two years	**–**	**–**	6	–
Borrowings greater than one year	**–**	**–**	6	–
Totals	**6**	**–**	18	1

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

Company

As at 31 December 2018, the Company had no borrowings.

25. Trade and other payables

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Trade creditors	**4,379**	4,935	**2,403**	2,534
Amounts payable to related parties	**585**	425	**576**	408
Amounts payable to Group companies	**–**	–	**13,114**	7,163
Social security and other taxes	**724**	1,113	**176**	178
Other payables	**1,575**	1,186	**524**	417
Customer advances	**734**	751	**–**	–
Accruals	**2,992**	2,307	**1,572**	1,374
	10,989	10,717	**18,365**	12,074

26. Contingent and deferred consideration

Deferred consideration

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Due within one year				
Harefield Pharmacovigilance	57	–	–	–
Pharmacovigilance Services	62	–	–	–
	119	–	–	–

The deferred consideration above relates to the acquisitions of Harefield Pharmacovigilance and Pharmacovigilance Services.

Contingent consideration

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Due within one year				
Haemostatix	–	1,957	–	1,957
	–	1,957	–	1,957
Due after one year				
Haemostatix	–	9,168	–	9,168
PSR	544	636	544	636
	544	9,804	544	9,804
	544	11,761	544	11,761

Contingent consideration arises in relation to the acquisition of Haemostatix, PSR and Harefield Pharmacovigilance.
The contingent consideration is measures using a discounted cash flow approach, utilising management's forecasts to estimate the likely payout and discounting these using a risk-adjusted weighted average cost of capital.

Haemostatix

The contingent consideration for Haemostatix comprises milestones of up to £4.0 million at start of Phase III (dependent on the Company's market capitalisation); plus £16.0 million sales-based milestone payments and an additional sum in the event that the enlarged group is able to utilise certain existing tax losses that are currently available to Haemostatix. Based on the Group's current strategy for the development of Haemostatix, the estimated likely payout is £nil and the fair value of contingent consideration for Haemostatix at 31 December 2018 was also £nil.

PSR

The contingent consideration payable for PSR could be between £nil and an aggregate maximum undiscounted amount of £2,806,000, subject to the future performance of the business. The estimate of the amount of the likely payout has been determined based on management's forecasts for 2019 and discounted using a risk-adjusted weighted average cost of capital of 19% resulting in a fair value of £544,000.

Harefield Pharmacovigilance

The contingent consideration payable for the acquisition of Harefield Pharmacovigilance could be between £nil and an aggregate maximum undiscounted amount of £500,000, subject to the future performance of the business. Based on management's forecast the estimated likely payout is not material and no valuation has been performed, hence the fair value of contingent consideration for Harefield Pharmacovigilance at 31 December 2018 was also £nil.

27. Share capital

Group and Company

Ordinary share capital

The nominal value of ordinary share capital issued is credited to share capital.

	2018		2017	
	Number	£000s	Number	£000s
Ordinary shares of £0.01 each				
Balance at 1 January	42,781,976	428	40,504,806	406
Shares issued through an institutional placing	2,029,971	21	2,081,389	18
Shares issued in settlement of share options	102,000	1	–	–
Shares issued for non-cash consideration	261,301	2	195,781	4
	45,175,248	452	42,781,976	428

27. Share capital continued

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

Options over 102,000 Ordinary Shares were exercised for proceeds of £117,000. 53,101 Ordinary Shares were issued as part consideration for the acquisition of Pharmacovigilance Services, 49,390 Ordinary Shares were issued to Dr Michael Forstner in relation to the transfer of his pharmacoepidemiology business and a further 158,810 Ordinary Shares will be issued to part satisfy the third and final component of contingent consideration for PharmInvent.

Shares to be issued

Ordinary Shares that are issued as contingent consideration for acquisitions are included within share capital once the conditions for issuance have been met. Included within the ordinary share capital at 31 December 2018 are 158,810 of Ordinary Shares that will be issued to part satisfy the third and final component of contingent consideration for PharmInvent (now PrimeVigilance s.r.o.). At 31 December 2018, the issue of these Ordinary Shares is no longer contingent.

At 31 December 2017, 100,818 Ordinary Shares in settlement of contingent consideration in relation to the acquisition of PharmInvent and 345 Ordinary Shares in relation to the acquisition of PSR Group BV were included in share capital because the issuance of shares was no longer contingent. These shares were issued in 2018.

28. Share premium

Group and Company

	2018 £000s	2017 £000s
Allotted, called up and fully paid		
Balance at 1 January	**20,616**	17,957
Shares issued through an institutional placing, net of issues expenses	**3,653**	2,659
Shares issued in settlement of share options	**115**	–
Balance at 31 December	**24,384**	20,616

In February 2018, the Company completed an institutional placing of 2,029,971 Ordinary Shares for 190p per share raising £3,674,000 net of expenses of £183,000. The excess of proceeds over the nominal value of £3,653,000 was credited to share premium.

Options over 102,000 Ordinary Shares were exercised for proceeds of £117,000. The excess of proceeds over the nominal value of £115,000 was credited to share premium.

29. Merger reserve

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

During the year ended 31 December 2018, 53,101 Ordinary Shares were issued as part consideration for the acquisition of Pharmacovigilance Services at £1.51 per share. The excess of the fair value over the nominal value of £80,000 has been credited to the merger reserve as the transaction is subject to Merger Relief in the year ended 31 December 2018.

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 the net assets of foreign operations.

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, certain Directors, former Directors and the Company Secretary hold options over shares held by Dr Miroslav Reljanović under agreements between those parties (the non-dilutive options). The grant and vesting of such options was dependent on their continued employment by the Company. Although these options are not dilutive and the Company is not party to the arrangements, in accordance with IFRS 2, a share-based payment charge arises.

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:

	2018 £000s	2017 £000s
Ergomed plc Long Term Incentive Plan	**521**	550
Rolf Stahel Unapproved Executive Share Option Agreement	**–**	4
Non-dilutive share options	**–**	175
Deferred consideration for acquisitions	**237**	304
	758	1,033

Included in the above share-based payment charges, £254,000 (2017: £253,000) 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. 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.

Unapproved options can be granted to any employee (including an Executive Director) of a Group company.

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

At 31 December 2018, the following unexercised share options to acquire Ordinary Shares were outstanding:

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	**2,255,000**	**£1.22**	2,038,000	£1.20
Granted during the year	**1,696,900**	**£0.70**	257,000	£1.407
Exercised during the year	**(102,000)**	**£1.14**	–	–
Lapsed during the year	**(404,693)**	**£1.23**	(40,000)	£0.616
Outstanding at the end of the year	**3,445,207**	**£0.96**	2,255,000	£1.217
Vested at the end of the year	**1,430,723**		172,357	
Exercisable at the end of the year	**1,430,723**		172,357	

The weighted-average share price at the date of exercise of shares exercised during the year ended 31 December 2018 was £2.01.

Included in the share options granted during the year of 1,696,900, are 545,000 share options with market-based performance conditions. The performance condition is a target Total Shareholder Return over a three-year period.

31. Share-based payments continued

At 31 December 2018, the following unexercised share options to acquire Ordinary Shares were outstanding:

Year of grant	Exercise period	Exercise price per share	2018 Number	2017 Number
2015	03/06/2018–02/06/2025	£1.63	**753,000**	913,000
2015	03/06/2018–23/12/2025	£1.69	**275,000**	275,000
2016	11/01/2019–10/01/2026	£0.01	**400,000**	400,000
2016	03/08/2016–02/06/2026	£1.39	**132,142**	185,000
2016	03/08/2016–02/06/2026	£0.01	**–**	100,000
2016	03/01/2017–02/12/2026	£1.39	**150,000**	150,000
2017	24/02/2020–23/02/2027	£2.10	**120,000**	155,000
2017	29/04/2017–28/03/2027	£0.01	**–**	27,000
2017	16/04/2020–11/04/2027	£0.01	**50,000**	50,000
2018	16/04/2018–15/04/2028	£1.93	**500,065**	–
2018	16/04/2018–15/04/2028	£0.01	**215,000**	–
2018	02/07/2018–01/07/2028	£0.01	**825,000**	–
2018	11/06/2018–10/06/2028	£0.01	**25,000**	–

The weighted average remaining life was seven years and five months (2017: eight years).

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

Award date	16 April 2018	16 April 2018	11 June 2018	2 July 2018
Fair value per share option	**£0.5036**	**£1.9606**	**£2.3505**	**£1.8205**
Share price	**£1.97**	**£1.97**	**£2.36**	**£1.83**
Exercise price	**£1.39**	**£0.01**	**£0.01**	**£0.01**
Volatility	**25.4%**	**25.4%**	**25.4%**	**25.4%**
Expected life	**5 years**	**5 years**	**5 years**	**5 years**
Expected dividends	**0%**	**0%**	**0%**	**0%**
Risk free rate	**1.2%**	**1.2%**	**1.1%**	**1.0%**

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

Award date	16 April 2018	11 June 2018	2 July 2018
Fair value per share option	**£0.4976**	**£0.6057**	**£0.4479**
Share price	**£1.97**	**£2.36**	**£1.83**
Exercise price	**£0.01**	**£0.01**	**£0.01**
Volatility	**26.1%**	**25.7%**	**25.4%**
Expected life	**3 years**	**3 years**	**3 years**
Expected dividends	**0%**	**0%**	**0%**
Risk free rate	**0.96%**	**0.79%**	**0.71%**

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%

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 £521,000 related to equity-settled share-based payment transactions in the year ended 31 December 2018 (2017: £550,000).

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 after which time the options are forfeited. The movement on options in issue under these schemes is set out below:

	2018		2017	
	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 2018 (2017: £nil).

At 31 December 2018, the following unexercised share options to acquire Ordinary Shares were outstanding:

Year of grant	Exercise period	Exercise price per share	2018 No.	2017 No.
2009	31/01/2009–30/12/2019	£0.01	**1,000,000**	1,000,000

The weighted average remaining life was one year (2017: two 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.

	2018		2017	
	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	**1,260,000**	**£1.60**	1,260,000	£1.60
Vested at the end of the year	**1,260,000**		1,260,000	
Exercisable at the end of the year	**1,260,000**		1,260,000	

All of the options awarded had 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 2018, the following unexercised share options to acquire Ordinary Shares were outstanding:

Year of grant	Exercise period	Exercise price per share	2018 No.	2017 No.
2014	18/04/2014–17/04/2024	£1.60	**1,260,000**	1,260,000

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

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 £nil (2017: £4,000).

31. Share-based payments continued

Non-dilutive share options

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

At 31 December 2018, the following unexercised share options to acquire Ordinary Shares were outstanding:

	2018		2017	
	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**	602,940	£0.01
Exercised during the year	**(176,470)**	**£0.01**	–	–
Outstanding at the end of the year	**426,470**	**£0.01**	602,940	£0.01
Vested at the end of the year	**426,470**		552,940	
Exercisable at the end of the year	**426,470**		552,940	

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 (2017: £175,000).

At 31 December 2018, the following unexercised share options to acquire Ordinary Shares were outstanding:

Year of grant	Exercise period	Exercise price per share	2018 No.	2017 No.
2015	20/07/2015–19/07/2025	£0.01	**88,235**	176,470
2015	20/07/2016–19/07/2025	£0.01	**88,235**	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 seven years and five months (2017: nine years and one month).

Acquisition-related share-based payment expense

The terms of the acquisitions of PSR Group BV and European PharmInvent Services s.r.o. (now PrimeVigilance s.r.o.) included provisions for contingent consideration payable in cash and in equity. Where that contingent consideration is conditional upon the continued employment of the vendors, in accordance with IFRS 3, a charge through the income statement arises. The element that is repayable in equity and that is conditional upon the continued employment of the vendors is included as part of share-based payments in accordance with IFRS 2. A charge of £163,000 arises in the year ended 31 December 2018 (2017: £304,000).

The element that is repayable in cash and that is conditional upon the continued employment of the vendors is charged separately to the income statement and is shown as acquisition-related contingent compensation (note 7).

In addition, the terms of the agreement for the transfer of the pharmacoepidemiology business of Michael Forstner included provisions for contingent consideration payable in cash and in equity that was conditional upon his continued employment. The element that is repayable in equity is included as part of share-based payments in accordance with IFRS 2. A charge of £74,000 arises in the year ended 31 December 2018 (2017: £nil). The element that is repayable in cash and that is conditional upon his continued employment is charged separately to the income statement and is shown as establishment of pharmacoepidemiology business expense in Exceptional items (note 9).

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 measured at fair value on a recurring basis

Group

The fair value of financial instruments measured at fair value on a recurring basis as at 31 December 2018 are as follows:

	Fair value Level 1 £000s	Fair value Level 2 £000s	Fair value Level 3 £000s	Total amount £000s
Financial assets:				
Investments in equity securities ('FVPL')	**863**	**–**	**1,202**	**2,065**
Financial liabilities				
Deferred consideration	**–**	**(119)**	**–**	**(119)**
Contingent consideration	**–**	**–**	**(544)**	**(544)**

Investments in equity securities, which are publicly quoted, are measured based on the quoted market price. Unlisted investments in equity securities are measured based on the market price of recent share issuances.

The contingent consideration is measures using a discounted cash flow approach, utilising management's forecasts to estimate the likely payout and discounting these using a risk-adjusted weighted average cost of capital, both of which are significant unobservable inputs. The contingent consideration relates to the acquisition of Haemostatix, PSR and Harefield Pharmacovigilance (see note 26).

The changes in level 3 items for the periods ended 31 December 2018 were as follows:

	Contingent consideration £000s	Investments in equity securities £000s
At 31 December 2017	**11,761**	**754**
Additions	**–**	**1,054**
Gain or loss recognised in the period through unrealised gains on equity instruments	**–**	**277**
Gain or loss recognised in the period through selling, general and administration expenses	**(11,850)**	**(44)**
Gain or loss recognised in the period through finance costs	**619**	**–**
Transfers out of level 3	**–**	**(863)**
Translation movement	**14**	**24**
At 31 December 2018	**544**	**1,202**

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

The changes in level 3 items for the periods ended 31 December 2017 were as follows:

	Group £000s	Company £000s
At 1 January 2017	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

32. Financial instruments continued

Categories of financial instruments

Group

31 December 2018	Financial instruments at fair value through profit and loss £000s	Financial assets at amortised cost £000s	Current financial liabilities at amortised cost £000s	Current financial liabilities at fair value through profit and loss £000s	Non-current financial liabilities at fair value through profit and loss £000s	Non-current financial liabilities at amortised cost £000s	Carrying amount £000s	Fair value £000s
Financial assets								
Equity investments	2,065	–	–	–	–	–	2,065	2,065
Trade receivables	–	11,735	–	–	–	–	11,735	11,735
Other receivables	–	2,437	–	–	–	–	2,437	2,437
Cash and cash equivalents	–	5,189	–	–	–	–	5,189	5,189
	2,065	19,361	–	–	–	–	21,426	21,426
Financial liabilities								
Finance leases	–	–	6	–	–	–	6	6
Trade creditors	–	–	4,379	–	–	–	4,379	4,379
Amounts payable to related parties	–	–	585	–	–	–	585	585
Other payables	–	–	1,575	–	–	–	1,575	1,575
Customer advances	–	–	734	–	–	–	734	734
Accruals	–	–	2,992	–	–	–	2,992	2,992
Contingent and deferred consideration	–	–	–	119	544	–	663	663
	–	–	10,271	119	544	–	10,934	10,934

The Groups'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.

The carrying value less impairment provision of trade receivables and payables approximates to their fair values.

31 December 2017	Financial instruments at amortised cost £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	–	–	4,935	–	–	–	4,935	4,935
Amounts payable to related parties	–	–	425	–	–	–	425	425
Other payables	–	–	1,186	–	–	–	1,186	1,186
Customer advances	–	–	751	–	–	–	751	751
Accruals	–	–	2,307	–	–	–	2,307	2,307
Contingent and deferred consideration	–	–	–	1,957	9,804	–	11,761	11,761
	–	–	9,616	1,957	9,804	6	21,383	21,383

The tables below analyse financial liabilities as of 31 December 2018 at carrying amount and at contractual amount.

	Carrying amount £000s	Contractual amount £000s	Due less than 1 year £000s	Due 2-3 years £000s
Finance leases	6	6	6	–
Trade creditors	4,379	4,379	4,379	–
Amounts payable to related parties	585	585	585	–
Other payables	1,575	1,575	1,575	–
Customer advances	734	734	734	–
Accruals	2,992	2,992	2,992	–
Deferred consideration	119	119	119	–
Contingent consideration	544	690	–	690
	10,934	11,080	10,390	690

The contractual amount of contingent consideration is the estimate of the undiscounted payment at 31 December 2018. The maximum contractual amount is described in note 16.

The tables below analyse financial liabilities as of 31 December 2017 at carrying amount and at contractual amount.

	Carrying amount £000s	Contractual amount £000s	Due less than 1 year £000s	Due 2-3 years £000s
Finance leases	18	18	18	–
Trade creditors	4,935	4,935	4,935	–
Amounts payable to related parties	425	425	425	–
Other payables	1,186	1,186	1,186	–
Customer advances	751	751	751	–
Accruals	2,307	2,307	2,307	–
Contingent consideration	11,761	21,330	4,000	17,330
	21,383	30,952	9,622	17,330

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

Financial assets consists of equity investments, trade and other receivables and cash and cash equivalents.

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
GBP	3,875	2,356	506	3,877
Euro	7,652	8,214	6,341	6,771
USD	5,200	6,914	1,680	3,857
Other	4,699	1,999	2,081	762
	21,426	19,483	10,608	15,267

32. Financial instruments continued

Financial liabilities

	Group		Company	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
GBP	**2,160**	12,288	**1,937**	15,170
Euro	**6,473**	4,554	**22,197**	8,008
USD	**564**	2,788	**6,179**	669
Other	**1,737**	1,753	**1,920**	731
	10,934	21,383	**32,233**	24,578

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.

2018

	Group		Company	
	Strengthen +10% £000s	Weaken -10% £000s	Strengthen +10% £000s	Weaken -10% £000s
Euro	**(156)**	**191**	**37**	**(45)**
USD	**(107)**	**131**	**234**	**(286)**
Other	**(691)**	**844**	**(306)**	**373**
	(954)	**1,166**	**(35)**	**42**

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

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

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 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 have no significant long-term financial liabilities.

33. Acquisition of subsidiary – Harefield Pharmacovigilance

On 7 September 2018, the Group acquired 100% of the issued share capital of Harefield Pharmacovigilance Limited, a company providing PV services based in the UK. The amounts 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	Fair value £000s
Net assets acquired and liabilities assumed:			
Property, plant and equipment	2	–	2
Trade and other receivables	212	–	212
Cash and equivalents	77	–	77
Current assets	289	–	289
Trade and other payables	(33)	–	(33)
Tax payable	(37)	–	(37)
Total identifiable net assets	221	–	221
Goodwill	38	–	38
Total consideration	259	–	259
Satisfied by:			
Cash	116	–	116
Deferred consideration	143	–	143
Contingent consideration	–	–	–
Total consideration	259	–	259
Net cash outflow arising on acquisition			
Cash consideration	116	–	116
Less: cash and cash equivalent balances acquired	(77)	–	(77)
	39	–	39

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

The total consideration includes deferred consideration of £143,000 relating to working capital. Deferred consideration of £86,000 was paid during the year ended 31 December 2018 and a further £57,000 is due in 2019 (see note 26).

The Group has a 12 month measurement period from the date of acquisition, and therefore the measurement period ends on 6 September 2019.

Harefield Pharmacovigilance contributed revenues of £144,000 and profit before tax of £116,000 to the results of the Group. If the acquisition had been completed on the first day of the financial year, group revenues for the year ended 31 December 2018 would have been £300,000 higher and group profit before tax would have been £131,000 higher.

34. Acquisition of subsidiary – Pharmacovigilance Services

On 31 October 2018, the Group acquired 100% of the issued share capital of Pharmacovigilance Services Limited, a company providing PV services based in the UK. The amounts 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	Fair value £000s
Net assets acquired and liabilities assumed:			
Trade and other receivables	62	–	62
Cash and equivalents	246	–	246
Other creditors	(12)	–	(12)
Tax payable	(23)	–	(23)
Total identifiable net assets	273	–	273
Goodwill	400	–	400
Total consideration	673	–	673
Satisfied by:			
Cash	320	–	320
Equity	80	–	80
Deferred consideration	273	–	273
Total consideration	673	–	673
Net cash outflow arising on acquisition			
Cash consideration	320	–	320
Less: cash and cash equivalent balances acquired	(246)	–	(246)
	74	–	74

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

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

Pharmacovigilance Services contributed revenues of £4,000 and profit before tax of £3,000 to the results of the Group. If the acquisition had been completed on the first day of the financial year, group revenues for the year ended 31 December 2018 would have been £88,000 higher and group profit before tax would have been £13,000 higher.

The total consideration includes deferred consideration of £273,000 relating to working capital. Deferred consideration of £212,000 was paid during the year ended 31 December 2018 and a further £61,000 is due in 2019 (see note 26).

35. 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 programmes. The final amounts 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
Contingent 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 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 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 valued at £2,535,000. None of the goodwill is expected to be deductible for income tax purposes. Contingent consideration represents the 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. Subsequent to the acquisition the liability for contingent consideration is measured at fair value at each reporting date (see note 26).

Ergomed plc has a 12 month measurement period from the date of acquisition, and therefore the measurement period ended on 1 October 2018. There were no adjustments to the provisional fair values in the year ended 31 December 2018.

36. Financial commitments

At 31 December 2018 the Group was committed to making the following payments under non-cancellable operating leases which fall due as follows:

Group

	Land and buildings		Other	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Within one year	**1,864**	847	**117**	161
Between two and five years	**6,667**	2,105	**131**	266
	8,531	2,952	**248**	427

At 31 December 2018 the Company was committed to making the following payments under non-cancellable operating leases which fall due as follows:

Company

	Land and buildings		Other	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Within one year	**17**	54	**–**	–

37. 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 £621,000 (2017: £323,000). Contributions payable to the schemes at 31 December 2018 were £58,000 (2017: £185,000).

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 £62,000 (2017: £57,000). Contributions payable to the schemes at 31 December 2018 were £nil (2017: £nil).

38. Related party transactions

Ergomed d.o.o., a company registered in Croatia, is under the control of Dr Miroslav Reljanović, who is a Director and shareholder of the Company. During the year the Company and its subsidiaries were charged £247,000 (2017: £266,000) by Ergomed d.o.o. and its subsidiaries in respect of clinical research costs and other administrative services. At 31 December 2018 a balance of £64,000 was owed by the Company and its subsidiaries to Ergomed d.o.o. and its subsidiaries in respect of these costs (2017: £40,000).

Tortuga Energy Services Limited is a company part-owned by Stuart Jackson, who is a Director and shareholder of the Company. During the year, the Company was charged consultancy fees of £17,000 (2017: £nil) in relation to the services of Stuart Jackson prior to his appointment as a Director. At 31 December 2018, amounts payable to Tortuga Energy Services Limited in relation to such consultancy services and associated expenses were £17,000 (2017: £nil).

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 contingent consideration. During the year £607,000 (2017: £472,000) was charged to the income statement in relation to this contingent consideration and was payable in cash and equity at 31 December 2018.

Ergomed Saudi Ltd is a joint venture of which the Company holds 50%. During the year, the Company was charged £43,000 (2017: £51,000) for clinical research support services. At 31 December 2018, amounts payable to Ergomed Saudi Ltd in relation to such services was £18,000 (2017: £7,000).

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

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

39. Adjusted earnings per share

	2018 £000s	2017 £000s
Loss for the purposes of basic earnings per share being net profit attributable to owners of the Company	**(8,980)**	(4,504)
Loss for the purposes of diluted earnings per share	**(8,980)**	(4,504)
Adjust for:		
Amortisation of acquired fair valued intangible assets	**1,286**	1,167
Share-based payment charge	**758**	1,033
Acquisition-related contingent consideration	**972**	752
Change in fair value of contingent consideration for acquisitions	**(233)**	2,875
Acquisition costs	**174**	259
Exceptional items	**8,494**	143
Unrealised gains on equity investments	**(277)**	–
Tax effect of adjusting items	**(1,323)**	–
Adjusted earnings for the purposes of diluted earnings per share	**871**	1,725
Adjusted earnings per share		
Basic	**1.9p**	4.2p
Diluted	**1.9p**	4.0p

Notes

Notes

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