

Corporate governance statement



Miroslav Reljanović
Executive Chairman

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

Introduction

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

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

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

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

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

Governance focus areas

Key areas of Governance focus in 2019, and since the year end:

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

The Board of Directors

The Board currently consists of three Executive Directors and four Non-Executive Directors. Biographical information for each Director and their contribution to the business is set out on pages 28 to 29 of the 2019 Annual Report. The Board considers James Esinhart, Rolf Soderstrom and Michael Spiteri to be independent. Rolf Soderstrom was appointed as Senior Independent Director on 11 March 2020.

Meetings held during the year to 31 December 2019

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

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

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

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

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

Board Committees

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

Audit and Risk Committee

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

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

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

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

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

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

Remuneration Committee

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

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

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

Corporate governance statement continued

Application of QCA Code

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

Principle 1

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

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

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

Principle 2

Seek to understand and meet shareholder needs and expectations

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

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

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

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

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

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

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

Principle 3

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

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

We recognise the importance of implementing feedback mechanisms to solicit, consider and act upon feedback from stakeholder groups. Further details of our engagement with stakeholders is set out on page 25 of the 2019 Annual Report.

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

Principle 4

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

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

Internal control and risk management

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

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

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

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

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

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

Principle 5

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

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

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

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

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

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

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

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

The biographies of all current serving Directors can be found on pages 28 to 29 of the 2019 Annual Report.

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

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

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

Principle 6

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

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

A summary of the skills and experience of each current Board member is included in the biographies on pages 28 and 29 of the 2019 Annual Report and on the 'Investors' section of the Company's website at www.ergomedplc.com.

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

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

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

Corporate governance statement continued

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

Principle 7

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

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

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

Principle 8

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

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

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

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

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

Principle 9

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

Further details on our governance structure and the role of our Board Committees are set out on pages 30 to 31 of the 2019 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 matters outside of scheduled meetings.

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

Principle 10

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

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

Regular communication is maintained with our shareholders primarily through:

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

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

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

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

Miroslav Reljanović
Executive Chairman

24 March 2020