

**Annual Report & Accounts**  
for the year ended 31 December

**2015**

S E R V I C E S

P R O D U C T S



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Source BioScience is a trusted, international provider of integrated state of the art Laboratory Services and Products to the healthcare and clinical, life and applied sciences and biopharma industries.

Our strategy is to grow our Laboratory Services and Products businesses, building on our position as a leading European and North American provider to the diagnostic, research and pharmaceutical markets.

S E R V I C E S

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# Group Highlights

## Financial highlights

- Revenue increased to £26.3 million (2014: £25.2 million)
- Adjusted\* EBITDA increased by 13% to £5.8 million (2014: £5.1 million)
- Adjusted\* profit before tax increased by 15% to £3.3 million (2014: £2.8 million)
- Profit before tax up 40% to £2.0 million (2014: £1.4 million)
- EPS increased by 50% to 0.45p basic (2014: 0.30p basic)
- Cash generated from operations of £4.6 million (2014: £2.8 million)
- Cash balance of £4.4 million (2014: £2.6 million) and net debt of £3.7 million (2014: £4.3 million)

## Operational highlights

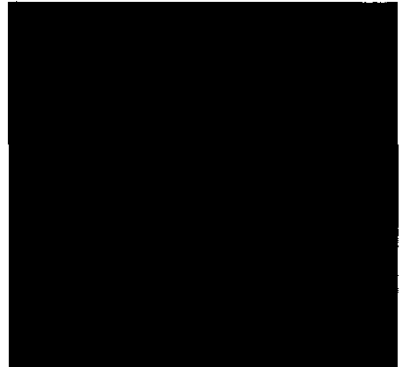
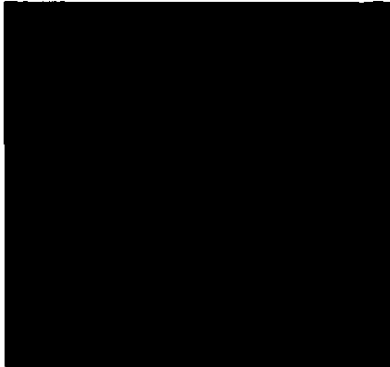
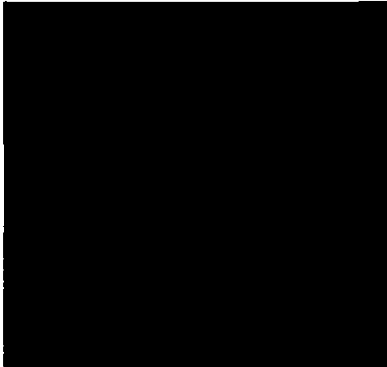
- Acquisition of Select Pharma Laboratories Ltd ('Select') in August 2015 for up to £7.3 million in cash
- Over 1 million DNA sequencing reads delivered in the year, an increase of more than 15%, supported by the roll out of ultra-fast, 10-hour sequencing from the Group's Atlanta facility
- Commissioned high throughput, high capacity serology production capability and serology laboratories at the Group's Rochdale site including "Class A" GMP clean room facilities
- Launch of enhanced Just Between Us™ online sexual health service including access to at-home sampling for HIV, syphilis, hepatitis B and C in addition to an online prescription service
- Award of first contract with the European Centre for Disease Control ('ECDC') for next generation DNA sequencing, worth up to €1.2 million over three years

## Post-period events

- Launch of the world's first environmentally controlled -70°C walk-in chamber, the flagship Polar 50™, first Polar50™ installed in the Group's Rochdale facility with applications in research and drug manufacturing
- Analytical chemistry laboratory commissioned in Rochdale initiating the roll-out programme for analytical testing across the Group's stability storage sites

\*Adjusted results are stated after eliminating non-recurring acquisition and restructuring costs of £644,000 (2014: £808,000) and amortisation of intangibles arising from acquisitions of £636,000 (2014: £614,000). EBITDA has the meaning set out on page 19. The adjusted results have been included to present a fair comparison of the progress in the underlying business.

## Services



## Products



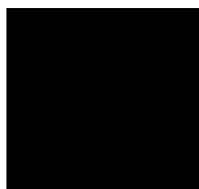
# Group at a Glance

Source BioScience is an international business operating ten state of the art facilities in five countries and with customers in over 90 countries worldwide. The Group offers a complementary portfolio of Laboratory Services and Products that share common technologies, laboratory processes, infrastructure and expertise. These include Diagnostics, DNA Sequencing and Genomics, Analytical and Regulated Services, Clinical Products, Life Science Research Reagents and Controlled Environment for a diverse range of markets. These Laboratory Services and Products are provided to a large and diverse customer base including the top 50 pharmaceutical companies, leading universities and research institutes worldwide, the UK NHS and other healthcare providers.

## S E R V I C E S

## P R O D U C T S

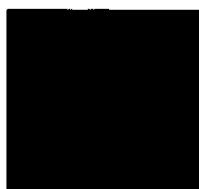
Laboratory Services comprises the laboratory and analytical testing activities of the Group including diagnostic testing for cancer and infectious disease, DNA sequencing and contract research activities, stability and cryostorage in addition to analytical services, and stability testing



- Oncology
- Infectious disease diagnostics
- Non-invasive prenatal testing

**Highlight:**

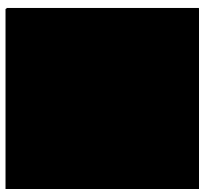
Launch of enhanced Just Between Us™ online sexual health service providing access to at-home sampling for Chlamydia, HIV and other diseases and online prescriptions



- DNA Sequencing
- Next generation sequencing
- Genotyping & gene expression
- Bioinformatics

**Highlight:**

Over 1 million DNA sequencing reads delivered in 2015, 15% up on last year



- Clinical trial support
- Stability storage
- Analytical chemistry testing
- Product & batch release

**Highlight:**

Revenue from stability storage and analytical testing up 50% compared with 2014

Products comprises the portfolio of Clinical Products, including serology products for blood and tissue banking, the portfolio of Life Science Research Reagents, including cDNA clones and other biomolecular tools, in addition to Controlled Environment chambers



- Blood banking, serology & tissue banking
- Liquid based cytology

**Highlight:**

Commissioned state of the art serology manufacturing suite with "Class A" GMP clean room capability



- Clones
- Antibodies
- Molecular biology tools
- DNA-based genealogy

**Highlight:**

Addition of DNA-based ancestry and genealogy tools and products



- Custom built controlled environmental chambers
- Service & validation

**Highlight:**

Launch of the world's first environmentally controlled -70°C walk-in chamber, the flagship Polar50™

# Chairman's Statement

Laurie Turnbull

**"I am delighted to be reporting another year of record-breaking financial performance"**

## Summary results

|                                | 2015<br>£'000 | 2014<br>£'000 | % change |
|--------------------------------|---------------|---------------|----------|
| Revenue                        | 26,302        | 25,175        | +4%      |
| Gross profit                   | 13,275        | 12,244        | +8%      |
| Adjusted* EBITDA               | 5,759         | 5,089         | +13%     |
| Adjusted* profit before tax    | 3,263         | 2,837         | +15%     |
| Reported profit before tax     | 1,983         | 1,415         | +40%     |
| EPS (basic)                    | 0.45p         | 0.30p         | +50%     |
| Cash generated from operations | 4,623         | 2,822         | +64%     |

\*Adjusted results are stated after eliminating non-recurring acquisition and restructuring costs of £644,000 (2014 £808,000) and amortisation of intangibles arising from acquisitions of £636,000 (2014 £614,000). EBITDA has the meaning set out on page 19. The adjusted results have been included to present a fair comparison of the progress in the underlying business.

## Overview

Source BioScience has delivered another year of strong financial performance with profit before tax and cash generation greater than in any previous year.

The acquisition of Select in August 2015 was the most recent step in the Board's strategy to enhance the Group's Laboratory Services capability and roll out its highly respected and accredited outsourced laboratory service offering into new and adjacent markets. The acquisition provides the Group with the expertise and capability to provide stability testing and Quality Control product and batch release testing services that are highly complementary with the Group's stability storage services. The integration is progressing well and to plan.

The enhanced range of services and products enables the Group to offer a "one stop shop" for a number of customer requirements, in particular those requiring a regulated clinical trial, stability storage and analytical testing service. The cohesion and commonality of the operational infrastructure, expertise and extended geographic reach is critical to driving the growth of the business. This represents a "joined up" business built on common technology platforms and infrastructure, laboratory processes and intellectual capital which now extends across ten facilities internationally.

As a result of the rapid integration of the acquired businesses, and the subsequent leveraging of the expanded portfolio and geographic reach, the Board is again pleased to report that all key financial metrics are ahead of the previous year.

# Chairman's Statement continued

## Divisional performance

A summary of the activities and performance of the Laboratory Services and Products divisions is presented below. More detail is provided in the Business Review.

### Laboratory Services

Laboratory Services comprises the laboratory and analytical testing activities of the Group including diagnostic testing for cancer and infectious disease, DNA sequencing and contract research activities, stability and cryostorage in addition to analytical services, and stability testing.

Revenue increased by 17% to £15.6 million (2014: £13.3 million) and divisional operating profit increased by 16% to £5.5 million (2014: £4.7 million).

The main drivers of the revenue growth were the expansion of the Analytical and Regulated Services offering, including the acquisition of Select, and continued growth of the DNA Sequencing and Genomic Services business both in the UK and internationally.

### Diagnostics

The Diagnostics business provides expert histopathology (tissue analysis), molecular diagnostics (gene-based analysis) and companion diagnostic testing services to public and private healthcare providers, including the UK National Health Service ('NHS'). There are a number of applications for this combination of capability, including cancer diagnostics and sexually transmitted infection ('STI') testing. The Company has expanded the Just Between Us™ STI service during the year to provide home-sampling for HIV, syphilis, hepatitis B and C testing in addition to an online prescription service.

### DNA Sequencing and Genomic Services

The DNA Sequencing and Genomic Services business provides ultra-fast DNA sequencing delivered across the Group's international network of laboratories to academic research groups, biotechnology and pharmaceutical customers.

During 2015 the Group processed over 1 million customer samples for DNA sequencing, 15% up on 2014. The momentum is being sustained by the introduction of new services and the expansion of Source BioScience's laboratory network. The DNA sequencing service was launched from the Group's facilities in Atlanta during the year, providing customers in the south east of the USA with access to sequencing data within ten hours of submitting their samples.

### Analytical and Regulated Services

The Analytical and Regulated Services business provides support for drug discovery and drug manufacture, from biomarker discovery and clinical trial services through stability storage and analytical testing to sample archiving under environmentally controlled conditions.

Revenue from stability storage and analytical testing was up by more than 50% compared with the prior year. This includes incremental revenue following the acquisition of Select in addition to like for like revenue growth of 17%, driven by an increase in the number of stability storage trials.

The stability storage activities are delivered from five sites in Rochdale, Stirling, Tramore (Ireland), Atlanta and Los Angeles. At these sites, customers from biopharma and life science research can access stability storage, -80°C and ultra-low temperature (liquid nitrogen) storage. In the majority of cases, stability storage contracts with customers are multi-year arrangements, typically for a period of three years.

The acquisition of Select greatly expands the range of analyses that the Group can offer. The ability to perform gene-based analysis and downstream analytical testing for stability and cryo-storage customers at a single, accredited site can significantly de-risk sample handling and specimen transport. This is attractive to pharmaceutical and biotech companies who may only have a very limited number of extremely valuable samples and specimens. The enhanced offering of sample storage in conjunction with analytical laboratory expertise has already led to new opportunities being crystallised with biopharma customers.

### Products

Products comprises the portfolio of Clinical Products, including serology products for blood and tissue banking, the portfolio of Life Science Research Reagents, including cDNA clones and other biomolecular tools, in addition to Controlled Environment chambers.

In addition, the Group designs, manufactures and installs a range of high quality, standard and bespoke, controlled environment systems that provide climatic conditions specified to customer requirements. Typically, customers are pharmaceutical companies, healthcare products manufacturers and contract research laboratories looking to establish in-house stability and speciality storage capability.

Divisional operating profit increased to £2.7 million (2014: £2.4 million) on decreased revenue of £10.7 million (2014: £11.9 million). The reduction in revenue was due principally to the ongoing decline in the number of liquid based cytology tests being undertaken by the NHS Cervical Screening Programme, as reported previously.

Despite decreased revenue, the divisional profit improved as a result of manufacturing efficiencies and enhanced margins.

### Clinical Products

The serology operation provides diagnostic products and other clinical grade reagents, including phosphate buffered saline solutions, to laboratories undertaking blood typing,

tissue analysis and organ transplant. Customers include NHS Blood and Transplant and the portfolio complements the Diagnostics services operations with cross-selling opportunities apparent.

The commissioning of the state of the art, high throughput serology manufacturing suite, including "Class A" GMP clean room capability, at the Rochdale facility supports the next stage in accelerating the growth of the serology business. The enhanced capability increases the flexibility, productivity and gross margin of the serology manufacturing process.

With regard to the Group's cervical screening cytology activities, the expectation that the NHS will migrate across to HPV primary testing has been reported previously and the downward trend in liquid based cytology volumes is anticipated to continue. The Company actively manages the Clinical Products portfolio to minimise the impact of the anticipated and ongoing change in the dynamics of the NHS Cervical Screening Programme and there are opportunities for growth across other components of the Clinical Products portfolio.

#### **Life Science Research Reagents**

GenomeCUBE®, the Group's proprietary search engine and bioinformatics tool for the Group's product portfolio, has undergone further development during the year. GenomeCUBE® is a key component of the international growth strategy over the medium to longer term and ultimately all of the Group's products will be available through this platform.

In conjunction with the improvements made to the website, e-commerce platform and eShop, the enhancements to GenomeCUBE® will enable the accelerated globalisation of the services and products portfolio, providing distributors and customers with fast and easy access to the entire portfolio.

#### **Controlled Environment**

The design and manufacture of stability storage and controlled environment chambers is highly complementary with the Analytical and Regulated Services business, including stability storage and stability testing services.

Customers demand high quality, controlled environment systems that satisfy the regulatory requirements for stability storage of pharmaceutical and other healthcare products. The Group provides a range of standard and bespoke systems that can be validated to meet the requirements of the MHRA and US Food and Drug Administration ('FDA') which is critical to regulatory approval of therapeutics and other healthcare products.

Controlled Environment manufacturing has performed well during 2015 with major improvements made to installation and validation efficiencies along with the increased use of outsourced manufacturing for certain components of

the chambers. This has enabled the Company to be more competitive in key geographies, particularly the US and European markets, and revenue has increased by 25% compared with last year.

A number of new products have been launched to meet the demands of biopharma customers. In February 2016, the Group launched the world's first environmentally controlled -70°C walk-in chamber, the flagship Polar50™. The first Polar50™ has been installed in the Rochdale facility, with applications in research and drug manufacturing.

#### **Our people**

Source BioScience's staff are critical to the success of the business and 2015 was another year of substantial improvement in Company performance. On behalf of the Board, I would like to thank everyone across the Group for their hard work and dedication and also welcome new employees who have joined the Source BioScience team over the past twelve months.

I would also like to reiterate my welcome to Tim Jackson-Smith who joined the Board as a Non-Executive Director during 2015. Tim has over 20 years' experience in legal practice in addition to significant, relevant experience in the listed-company environment, having served for more than eight years in both executive and non-executive director roles at a number of main market and AIM quoted companies. The Board is determined to recruit and retain the highest calibre individuals and Tim brings experience and an important, additional skill base as we continue with the implementation of the growth strategy.

#### **Outlook**

We believe that the Group has a very strong business model and opportunities for further growth are apparent across the Laboratory Services and Products divisions. The Board's strategy is to expand the service and product offering, enabling greater market penetration, with the objective of delivering increasing value for shareholders. The aim is to achieve this through continued organic growth from the enlarged infrastructure in addition to further, carefully selected acquisitions when the opportunities arise, building on the strong foundations now established in the business.



**Laurie Turnbull**

Chairman

26 April 2016

# Business Review

Dr Nick Ash

**"Source BioScience is a diversified and balanced business offering outstanding opportunities for increased sales and expansion in the UK and internationally"**

## Cautionary statement

*This Business Review contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Source BioScience plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Nothing in this Business Review should be construed as a profit forecast.*

Source BioScience is a trusted, leading international provider of integrated state of the art Laboratory Services and Products to the healthcare and clinical, life and applied sciences and biopharma industries. The commercial activities of the Group are organised into two segments: Laboratory Services and Products. The business activities and performance during 2015 and expectations for 2016 are described in this Business Review.

## S E R V I C E S

- Diagnostics
- DNA Sequencing and Genomic Services
- Analytical and Regulated Services

## P R O D U C T S

- Clinical Products
- Life Science Research Reagents
- Controlled Environment

## Resources available to the Group

The key resources available to Source BioScience to help it achieve its objectives include an outstanding reputation for delivery, quality and customer service across all activities, strong market position, an excellent customer base and a secure financial foundation. In addition, the Group has an experienced, flexible and motivated work force which the Board holds in very high regard. There are the cash resources available to invest prudently and appropriately in both operational and commercial capability and also in the business growth opportunities that the Board has identified.

Over the medium to long term, the Board strongly believes that Source BioScience has the potential to become the UK's leading provider of the highest quality Laboratory Services and Products to growing markets in healthcare, life science research and biopharma. In addition, the Group has significant opportunities to expand its penetration of the key US and European markets for life science research and biopharma markets. The resources available to the Group, and the extended geographies in which it now operates, provide the opportunities to deliver superior value to shareholders.

## Key risks facing the business

As with any organisation, the Group faces certain risks which may adversely affect its business both now and in the future. Many of these are general in nature and can affect all businesses. Examples of such risks include the ability to win business on profitable and commercial terms in the face of significant competition, the reliance on key personnel, the ability to successfully integrate acquisitions, the ability to grow the business both organically and through acquisitions, the risk of interruption to operations and the continued ability of the Group to remain a viable and successful business.

The Board operates a system of internal control and risk management to provide reasonable assurance regarding the effectiveness and efficiency of 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 observe business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Within this Business Review, the key risks facing each of the Group's business activities, together with the Board's approach to managing and mitigating such risks, are set out on pages 11, 14, 15, 18 and 19. In addition, the Board believes that the Group overall faces certain specific key risks as follows:

*That appropriate investment is made in activities that will generate competitive advantage and drive the success of the Group over the short, medium and long term.*

Within its available resources, and without increasing the overall financial risk to the Group, Source BioScience has invested in key acquisitions over the past nine years to enhance the financial, operational and commercial performance of the Group. During the year, the Group has acquired Select Pharma Laboratories Ltd, enhancing the range of analyses that the

Group can offer. This acquisition adds a complementary range of accredited pharmaceutical testing including chemistry, physical and microbiological analyses.

Also in the year, the Group acquired BritainsDNA, a provider of DNA-based ancestry and genealogy products to the consumer market, complementary with the Group's existing DNA Sequencing and Genomic Services activities.

There has been continued investment in specific projects to support the organic growth of the business. During the year, additional investment has been made in laboratory infrastructure to support the launch of the Group's analytical chemistry services from Rochdale; enhanced serology manufacturing capability, including "Class A" GMP clean room facilities, also in Rochdale; expansion of DNA sequencing capability in the USA with the launch of the service from Atlanta; increased capacity of the stability storage facilities in the UK and USA, including the post-year end launch of the world's first environmentally controlled -70°C walk-in chamber, the flagship Polar50™; in addition to ongoing investment in the proprietary e-commerce infrastructure and laboratory information management systems. The Board has also ensured that intellectual capital and know how is suitably protected in support of the business objectives.

*Interruption to the Group's e-commerce platforms, or failure of laboratory infrastructure, could adversely affect quality and timeliness of service delivery.*

The Group has implemented a range of measures to mitigate the risk of interruption to the website, and associated infrastructure, and laboratory activities. These include, but are not limited to, dual site backup hosting arrangements, installation of backup power supply, duplicated inventory of biological materials stored in a secure second facility, telemetry and alarm systems for critical equipment, environmentally controlled premises and appropriate service and maintenance arrangements.

*The ability of the Group to maintain operating cash generation and therefore not negatively impact working capital requirements nor the ability to service our financing obligations.*

The Board has operating cash generation as a clearly stated objective and the Group has continued to be strongly cash generative during 2015, generating cash from operating activities during the year with continued progress expected during 2016.

*The loss of key employees could weaken the Group's management and operational capabilities, adversely affecting its ability to achieve its objectives.*

The Board endeavours to ensure that key members of the senior management team and staff are suitably trained, incentivised and motivated. In addition, the culture of the Group is to ensure that appropriate cross-training is undertaken and knowledge sharing is actively encouraged and rewarded.

# Business Review continued

## SERVICES

The Laboratory Services division has performed strongly in the year; revenue increased by 17% to £15.6 million (2014: £13.3 million) and divisional operating profit increased by 16% to £5.5 million (2014: £4.7 million).

Source Company data/audited financial statements

### Laboratory Services

Laboratory Services comprises the laboratory and analytical testing activities of the Group including diagnostic testing for cancer and infectious disease, DNA sequencing and contract research activities, stability and cryostorage in addition to analytical services, and stability testing

### Diagnostics

The Diagnostics business provides expert histopathology (tissue analysis), molecular diagnostics (gene-based analysis) and companion diagnostic testing services to public and private healthcare providers. These capabilities have traditionally been applied to cancer diagnostics but are increasingly being applied to meet additional diagnostic requirements, for example sexually transmitted infection testing

Source BioScience operates one of only a limited number of accredited laboratories in Europe with the capability to deliver the combination of complex tissue-based pathology expertise coupled with DNA-based molecular testing to hospitals and clinics, as well as private individuals, providing a competitive advantage

A major element of the Diagnostics activity is derived from the STI testing service, launched during the second half of 2013. The STI service is configured for two main customer groups

- as an outsourced laboratory service for healthcare commissioning bodies, such as local authorities and NHS trusts, who are responsible for delivering the UK National Chlamydia Screening Programme
- to enable private individuals web-based access to home-sampling for STI testing

In all cases, samples are returned to Source BioScience's accredited diagnostic laboratories for analysis so that customers can be assured of the highest quality service and accuracy of results

The National Chlamydia Screening Programme ensures Chlamydia testing is available for free for anyone aged between 16 and 24 years old and can be accessed via the Company's Don't Pass It On™ online service at [www.dontpassiton.co.uk](http://www.dontpassiton.co.uk). The Company has a number of multi-year contracts with healthcare commissioners across the UK to deliver Chlamydia screening regionally.

For individuals not eligible for free testing under the National Chlamydia Screening Programme, and for infections other than Chlamydia, the Company offers the Just Between Us™ STI service which is a comprehensive, confidential home-sampling service accessible online at [www.jbuclinic.co.uk](http://www.jbuclinic.co.uk). The service was significantly enhanced during the year to provide home-sampling for HIV, syphilis, hepatitis B and C testing, in addition to an online prescription service.

The Diagnostic offering is constantly monitored and reviewed to ensure that it meets existing and anticipated demand from customers. As highlighted above, the portfolio has been enhanced during the year, including the development and validation of proprietary assays for additional genetic tests for disease. These proprietary assays improve laboratory efficiency, reduce costs and provide competitive advantage.

Further applications for the Group's capability include non-invasive prenatal testing ('NIPT') which is currently at a very early stage of clinical utility, but represents a good

opportunity for future growth. The Source BioScience NIPT service uses cutting-edge DNA sequencing technology to analyse foetal cell-free DNA from maternal blood for chromosomal abnormalities. Whilst invasive procedures such as amniocentesis and chorionic villus sampling carry a potential risk of miscarriage, NIPT is risk-free and can be performed as early as the tenth week of pregnancy. NIPT provides expectant mothers with an additional choice in the prenatal screening process. Combined with ultrasound/serum findings, parents can use the result to decide whether or not to undergo an invasive procedure. Growth in this area is expected in 2016.

### ***DNA Sequencing and Genomic Services***

The DNA Sequencing and Genomic Services business provides ultra-fast DNA sequencing services delivered by the Group's international network of laboratories and distributors to academic research groups, biotechnology and pharmaceutical companies. Source BioScience's ambition is to become the leading commercial provider of DNA sequencing in the UK and the USA.

The Group's ultra-fast service, with data delivery times of less than ten hours, and international laboratory network continues to power the growth of this business. Over 1 million customer samples for DNA sequencing were analysed during the year, an increase of 15% compared with the prior year. In 2015 the DNA sequencing service was launched from the Group's facilities in Atlanta for customers in the south east of the USA.

# Business Review continued

## S E R V I C E S

### **Analytical and Regulated Services**

The Analytical and Regulated Services business provides support for the drug discovery to drug manufacture pipeline, from biomarker discovery and clinical trial services through stability storage and analytical testing to sample archiving under environmentally controlled conditions

Accreditation by the relevant authorities is essential when providing services into the highly regulated pharmaceutical and contract manufacturing industry. The Group holds Good Laboratory Practice ('GLP'), Good Clinical Practice ('GCP') and Good Manufacturing Practice ('GMP') accreditation from the Medicines and Healthcare products Regulatory Agency ('MHRA'), is certified by the US Food and Drug Administration ('FDA') in both the USA and the UK, is licensed by the Home Office in the UK for the storage of controlled drugs and by the Human Tissue Authority ('HTA') for the long term storage of human cells for research and therapeutic use

The stability storage activities are delivered from five sites in Rochdale, Stirling, Tramore (Ireland), Atlanta and Los Angeles. At these sites, customers in the biopharma and life science research markets can access stability storage, -80°C and ultra-low temperature (liquid nitrogen) storage. In many cases, stability storage contracts with customers are multi-year arrangements typically for periods of three years

The acquisition of Select greatly expands the range of analytical services that the Group can offer. In addition to the tissue pathology and genomic services historically provided, the acquisition of Select adds a complementary range of accredited pharmaceutical testing including chemistry, physical and microbiological analyses. This testing has applications in therapeutics batch release and product release to the EU and US healthcare markets

The ability to combine the latest tissue and gene-based analyses with analytical chemistry and microbiology at a single, accredited facility significantly de-risks sample handling and specimen transport. This is attractive to pharmaceutical customers who may only have very limited and extremely valuable samples and specimens. Opportunities with biopharma customers have already been crystallised, resulting from the enhanced offering of stability storage in conjunction with upstream and downstream analytical testing

The key risks facing Laboratory Services, together with the Board's approach to managing such risks, are set out below

*The majority of the revenue in Diagnostics is derived from outsourcing by customers and may cease if and when a customer develops appropriate and sufficient internal resource to satisfy the demand*

The Group has invested in research, development and marketing programmes that will provide continued sources of competitive advantage for the Diagnostic activities and deliver value added services to existing and new customers. As demand for gene-based testing and molecular diagnostics increases, this strengthens the Group's commercial advantage as Source BioScience is one of only a handful of accredited laboratories in Europe with the capability to deliver this type of complex diagnostic testing. A rolling programme of service development will continue, including offering services in different disease areas, to further grow the Diagnostics business.

*The breadth of service offering in Diagnostics could be considered relatively narrow and is exposed to competition across all of its services*

The Board has targeted the expansion of its offering in Diagnostics. The range of diagnostic testing services during the year has been enhanced and the STI service has been expanded to include testing for HIV, syphilis, Hepatitis B and C in addition to a range of other, common sexually transmitted infections. The Group's genetic testing capability also enables services for other disease areas where previously there was limited penetration including, for example, non-invasive pre-natal testing ('NIPT')

*Diagnostic activities for public healthcare are dependent upon the ability to maintain CPA accredited status and Care Quality Commission ('CQC') registration*

Source BioScience has a commitment to quality and has implemented clear policies and procedures throughout the business aimed at ensuring compliance with CPA requirements as well as other quality standards and the UK National External Quality Assessment Service ('NEQAS') scheme

Whilst responsibility for compliance with such policies and procedures rests with operational management, the Group maintains a dedicated Quality Assurance Department with five staff who oversee compliance

The Group is also subject to regular audits and inspections from the regulatory bodies responsible for such accreditations. The Group's CPA accreditation was renewed in February 2015 following a satisfactory audit inspection.

*The Group's technological platforms, particularly those utilised for DNA Sequencing and Genomic Services, may be superseded by alternative, superior technologies which may provide enhanced analyses, higher throughput, greater sensitivity, lower cost or other sources of competitive advantage resulting in a reduction in revenue streams*

The Board continually assesses the technologies available and is conscious that, in targeting academic and other research institutions, there is an expectation that the Group is able to provide the latest generation of technology platforms and analyses to support current and future applications for these

technologies. Senior staff work in partnership with suppliers and customers to mitigate the risks associated with the introduction of any new technology platform

*Analytical and Regulated Services revenue, including that derived from clinical trials and stability storage, can be concentrated on, and dependent on, individual major customers and projects,*

It is possible that significant revenue can be derived from a single customer or a single project and failure to meet the minimum quality and service obligations could adversely affect operational and thereby financial performance. During the year the Group has successfully continued the diversification and growth of the customer base and has increased the number of projects undertaken, broadened the nature of those projects and increased the number of customers

# Business Review continued

## PRODUCTS

Divisional operating profit increased to £2.7 million (2014: £2.4 million) on decreased revenue of £10.7 million (2014: £11.9 million). Despite decreased revenue, the divisional profit improved as a result of manufacturing efficiencies and enhanced margins.

Source: Company data/audited financial statements

### Products

Products comprises the portfolio of Clinical Products, including serology products for blood and tissue banking, the portfolio of Life Science Research Reagents, including cDNA clones and other biomolecular tools, in addition to Controlled Environment chambers.

The Group also designs, manufactures and installs a range of high quality, standard and bespoke, Controlled Environment reach-in and walk-in room systems that provide climatic conditions specified to customers' requirements.

### Clinical Products

The serology operation provides diagnostic products and other clinical reagents, including phosphate buffered saline solutions, to laboratories undertaking blood typing and tissue analysis including NHS Blood and Transplant. This product portfolio complements the Diagnostics laboratory services with strong cross-selling opportunities.

The commissioning of the state of the art, high throughput serology manufacturing suite, including "Class A" GMP clean room capability, at the Rochdale facility supports the next stage in accelerating the growth of the serology business. The enhanced capability increases the flexibility, productivity and gross margin of the serology manufacturing process.

Demand for liquid based cytology products directly correlates with overall compliance levels with the NHS Cervical Screening Programme which, as we have previously observed, peaked in 2009. The increasing utilisation of HPV as a primary screen in the NHS Cervical Screening Programme will further reduce cytology volumes for Source BioScience as NHS trusts migrate to diagnostic platform manufacturers who can offer an approved HPV testing technology. During 2015 we experienced a reduction in volume demand for liquid based cytology products of approximately 25% and anticipate that this decline in demand will accelerate in the short term.

On 31 December 2015 the five-year non-exclusive distribution agreement between Becton Dickinson and Source BioScience for the distribution of the SurePath™ liquid based cytology technology in the UK ended as scheduled. Revised terms for the continued supply of liquid based cytology consumables have been proposed by Becton Dickinson and are under discussion between the parties. Source BioScience owns the laboratory equipment that is used by many NHS trusts to process SurePath™ liquid based cytology samples and has a number of ongoing contracts with the NHS for the rental of this equipment and supply of consumables.

### **Life Science Research Reagents**

GenomeCUBE®, the Group's proprietary search engine and bioinformatics tool for the entire Products portfolio, has undergone further developments during the year. These have been aimed at enhancing the customers' buying experience and ensuring that GenomeCUBE® is configured appropriately to support the comprehensive digital marketing strategy for 2016 and beyond.

GenomeCUBE® is a key component of the international growth strategy over the medium to longer term and ultimately all of the Group's products will be available through this platform. In conjunction with the improvements made to the website, e-commerce platform and eShop, the enhancements to GenomeCUBE® will enable the accelerated globalisation of our products, providing distributors and customers, with fast and easy access to the Group's entire Products portfolio.

### **BritainsDNA**

In December the Group acquired BritainsDNA, a provider of DNA-based ancestry and genealogy products to the consumer market. Source BioScience has been providing the laboratory testing and analysis for BritainsDNA for a number of years. The acquisition will deliver incremental revenue and increased operational efficiency for this business. The commercial activities will be migrated across to the Group's e-commerce platform and e-Shop early in 2016.

### **Controlled Environment**

The design and manufacture of stability storage and controlled environment chambers is highly complementary with the Group's Analytical and Regulated Services business, including stability storage and stability testing services, as described above.

Customers demand high quality, controlled environment systems that meet the regulatory guidelines for stability storage for pharmaceutical and other healthcare products. The Group provides a range of standard and bespoke systems that can be validated to meet the requirements of the MHRA and FDA which is critical to regulatory approval of therapeutics and other healthcare products. Regulatory requirements include

ICH Tripartite Guidelines for stability storage conditions for biotechnology, pharmaceutical and contract manufacturing. These specified conditions simulate the four global climatic zones for long term, intermediate and accelerated stability testing.

Management focus, coupled with investment in bespoke systems, has been applied to the Controlled Environment business over the past two years. Fundamental changes have been made to the supply chain and manufacturing processes, with increasing use made of specialist outsourced manufacturing suppliers. These changes have helped support both revenue growth, which has increased by 25% compared with 2014 and, importantly, the gross margin for the Controlled Environment portfolio, which has increased by more than 90% over the same period.

The process improvements have also laid the foundations for further investment into, and expansion of, the Controlled Environment portfolio to support the Board's ambition to extend this business into Europe and the USA.

In February 2016 the Company announced the launch of the flagship Polar50™, the world's first environmentally controlled -70°C walk-in chamber. The chamber, which has an internal capacity of 50m³, offers customers from industry and academia a unique opportunity to store biological, pharmaceutical and medical products at ultra-low temperatures. The chamber provides -70°C storage capability with a +/- 1% tolerance, maintained by a custom manufacture dual refrigeration system, providing 100% operational redundancy to ensure 24/7 compliance with a controlled environment.

# Business Review continued

The key risks facing Products, together with the Board's approach to managing such risks, are set out below

*The Group's portfolio of Life Science Research Reagents, including DNA clones and antibodies, may face competition from manufacturers of substitute products that enable new applications, represent new organisms, offer greater specificity or are more competitively priced*

Source BioScience works in close conjunction with quality manufacturers of antibodies and genomic products to ensure that we have access to, and act as distributors for, appropriate genomic reagents and related research tools from a range of model organisms and a range of applications

The portfolio currently includes more than 20 million DNA clones and 100,000 antibodies reSource™ the own label product range, provides high quality, cost effective products for life science research, significantly increasing the addressable market for the product portfolio.

*Historically, each of the Group's liquid based cytology agreements with NHS Trusts or NHS regions has been for a three or five year term. Over the short term, this area of the business remains dependent upon the successful renewal of such agreements*

As with any commercial contract that is for a fixed term, there is a risk that the customer may not choose to renew with the incumbent provider. The Group takes all steps that it reasonably can to ensure that existing contracts are renewed, subject to agreement of commercial terms, and Source BioScience continues to support and enhance the relationship with NHS partners. There is an ongoing dialogue with the commissioners, NHS Trusts and other stakeholders in support of their requirements of the cervical screening programme. As previously reported, the NHS Cervical Screening Programme is migrating toward HPV testing as a primary screen, however there remains some uncertainty across commissioning groups as to how quickly that migration will progress. This has a consequent impact on the ability and confidence of NHS Trusts to renew, or award, contracts extending beyond the short term.

*Over the short term the Board has highlighted that decreasing compliance with the cervical screening programme and a migration toward non-cytology based screening will reduce demand for liquid based cytology by the NHS*

The Group is actively managing its product offering in this area to ensure that it can maintain maximum benefit from this activity whilst LBC remains the screening technology of choice by the NHS Cervical Screening Programme

## *Reliance on a limited number of key suppliers*

The potential for delays and bottlenecks at key suppliers could delay installation of equipment and a lack of supplier competition could potentially raise manufacturing input costs. Steps have been taken to move away from single sourcing of key materials and components to dual or multi sourcing. The design of much of the environmentally controlled storage equipment has facilitated the use of widely available components.

## **Integration of Select and expansion of laboratory network**

The acquisition of Select in August 2015 was the most recent step in the Board's strategy to enhance the Laboratory Services capability and roll out the highly regarded and accredited outsourced laboratory service model into new and adjacent markets. The acquisition provides the expertise and capability to provide stability testing and Quality Control product and batch release testing services that are highly complementary with the Group's stability storage services. The integration is progressing well and to plan.

The acquisition also increased the Group's laboratory network to ten facilities internationally. The ambition of the Board is to roll out the full spectrum of Laboratory Services across all sites where the commercial opportunities exist to exploit the capability. This is an ongoing process and progress has been reported previously including the launch of the ultra-fast DNA sequencing service from Atlanta early in 2015.

In February 2016 the Company hosted an open day for customers to visit the analytical chemistry laboratories in Rochdale. This new laboratory is the first step in the roll-out programme of analytical chemistry capability across the Group's five stability storage sites, leveraging the expertise acquired with the Select business. The new Rochdale laboratory is anticipated to come on-stream during the second quarter of 2016 following audit and certification by the MHRA.

In parallel the Group has increased its commercial investment to exploit the new markets for Laboratory Services and Products. The US market represents a significant opportunity for the growth of the Source BioScience business and the necessary investment has been made in infrastructure and people to deliver this.

## Central resources

Central Resources include facilities, key support functions such as finance, human resources and management information services in addition to the Group Board. Other costs disclosed centrally include insurances, legal, professional and advisory fees in addition to investor relations and other Main Market costs.

Central costs have increased by £0.5 million to £5.8 million (2014: £5.3 million). A significant element of the increase is attributable to the additional £0.4 million share-based payment charge in the year, following the approval of the Group's new Long-Term Incentive Plan at the Annual General Meeting in June 2015. Central costs remain closely monitored and tightly controlled.

The key risks in this area of the business together with the Board's approach to managing such risks are set out below.

*Source BioScience is subject to a significant number of regulatory frameworks, and ongoing changes to existing frameworks, such as IFRS, the UK Corporate Governance Code, the Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority ('FCA'), company law and new regulations for Audit and Remuneration Committees and associated disclosures. There is also increasing regulatory burden in areas such as health and safety, medicines and healthcare products analytical testing, employment law and data protection. In addition, there is an ongoing requirement to invest in information technology to protect and improve the business.*

In order to comply with these requirements, Source BioScience has devoted significant resources to fulfilling these obligations, receiving guidance from external advisors where applicable and appropriate. Shareholders (and their advisors) can find information and resources that they need for interacting with us and for carrying out their various obligations under the FCA Listing Rules, Prospectus Rules and Disclosure and Transparency Rules.

## Geographic performance

During the year focus has continued on activities and operations predominantly in the UK but increasingly in Ireland and the USA.

The Group generated revenue of £26.3 million (2014: £25.2 million) of which £6.0 million was derived from overseas customers (2014: £5.0 million). The drivers for this growth in revenue are as described in this Business Review.

## Financial review

Financial performance

Group revenue increased to £26.3 million (2014: £25.2 million).

Whilst the UK remains the largest market for the Group, strategies to increase the penetration of overseas markets are starting to gain traction. During the year, sales to non-UK customers increased by 19% to £6.0 million (2014: £5.0 million) with European customers representing the greatest element of the increase.

Gross margin improved to 50% (2014: 48%), generated from the operational gearing inherent within the laboratory and production infrastructure, coupled with close management of the cost base. In the current economic environment with constant pressure on prices and rising input costs, the Board believes this represents a solid performance.

Normal administrative expenses were broadly consistent as a percentage of revenue at 26% (2014: 25%), the slight increase representing the additional cost base acquired with Select and the additional investment in marketing and other commercial activities. Ongoing administrative expenses are largely fixed and appropriate to the increasing scale of the business.

On a reported basis, the operating profit for the year was £2.3 million (2014: £1.8 million profit), an increase of 29%.

Adjusted\* profit before tax was £3.3 million (2014: £2.8 million). This was in line with expectations before recognising the additional £0.4 million share-based payment charge in the year, following the approval of the Company's new Long-Term Incentive Plan at the Annual General Meeting in June 2015.

Included in the Consolidated Statement of Comprehensive Income are non-cash items, including depreciation, amortisation and share-based payment costs of £2.8 million (2014: £2.5 million). After adjusting for these non-cash items, non-recurring acquisition and restructuring costs, net finance expense and taxation, adjusted\* EBITDA increased by 13% to £5.8 million (2014: £5.1 million).

## Financial position

At 31 December 2015 the Group had net assets of £31.8 million (2014: £25.4 million). Non-current assets increased by a net £7.5 million to £37.1 million (2014: £29.6 million). The movement included £6.9 million of goodwill and £1.4 million of intangible assets arising from the acquisitions, in addition to £1.7 million of capital expenditure offset by an aggregate £2.4 million of depreciation and amortisation.

At 31 December 2015 the Group had gross debt of £8.1 million (2014: £6.9 million), being the bank lending secured to part-fund the acquisitions in 2013 and 2015. The outstanding balance has increased during the year as there has been additional lending of £3.5 million and scheduled repayments of £2.2 million. Net debt was £3.8 million (2014: £4.3 million).

# Business Review continued

## Cash flows and liquidity

Cash generated from operations was £4.6 million (2014 £2.8 million) and net cash flow for the year was an inflow of £1.8 million (2014 outflow of £1.6 million).

The acquisition of Select, for initial net cash consideration of £6.3 million (comprising consideration of £8.0 million and cash acquired of £1.7 million), was part funded by a firm placing of new ordinary shares which raised £4.4 million in gross proceeds, in conjunction with additional bank lending of £3.5 million.

The Group invested £1.7 million (2014 £1.6 million) in capital expenditure including £1.2 million on new laboratory infrastructure and facilities, including the -70°C walk-in chamber and £0.5 million on enhanced IT and laboratory information management platforms.

The financing cash outflow was £2.2 million on debt principal repayments in addition to £0.4 million of interest paid (2014 £0.4 million).

The Group's cash balance was £4.4 million as at 31 December 2015 (2014 £2.6 million).

## Treasury and foreign exchange policy

The Group has significant revenue and costs denominated in both US Dollars and Euros and is therefore exposed to movements in exchange rates. To protect cash flows against a high level of exchange risk, the Group may adopt a number of mechanisms to mitigate the risk including making treasury deposits in foreign currencies and entering into forward exchange contracts to hedge foreign exchange exposures arising from forecast payments.

The Group has substantial cash resources and also operates significant banking facilities. The objective of the Group's treasury policy is to manage cash flows and banking, money market and capital market transactions with the aim of guaranteeing absolute capital security whilst securing the most favourable interest rates available commensurate with the risk. Liquidity is a key consideration, and a rolling programme of short and long term (up to one year) investments, enabling access to maturing cash as required, may be adopted.

The Group's treasury policy also aims to provide protection against fluctuating interest rates by utilising fixed rate financial products where appropriate. At 31 December 2015, the Group had external borrowings of £8.1 million (2014 £6.9 million), including £8.1 million (2014 £6.8 million) of bank loans at variable rates, of which £nil (2014 £1.5 million) have been fixed through the use of an interest rate swap, and £nil (2014 £0.1 million) of finance lease liabilities at fixed interest rates.

## People and work environment

Source BioScience's people are critical to its success. In addition to ensuring the highest quality laboratory facilities and technology platforms, the Board is also mindful to ensure that the Group recruits and retains the highest calibre individuals.

The Board will continue to invest to ensure that the Company has the best people in place, with a skilled and experienced senior management team, to support the planned growth and expansion of the business across all of its activities and its international markets.

As at 31 December 2015 the Group had a total of 217 employees (31 December 2014 177 employees) including Directors.

The following table sets out a breakdown by gender showing at 31 December 2015 (i) the number of persons who were Directors of the Company, (ii) the number of persons who were senior managers of the Group (other than persons falling within sub-paragraph (i)), and (iii) the number of persons who were employees of the Group.

\*Profit before tax is adjusted to eliminate non-recurring acquisition and restructuring costs of £644,000 (2014 £808,000) and amortisation of intangibles arising from acquisitions of £636,000 (2014 £614,000). Adjusted profit before tax has been included to present a fair comparison of the progress in the underlying business.

| Staff breakdown by gender | Number of men | %  | Number of women | %  |
|---------------------------|---------------|----|-----------------|----|
| Directors                 | 5             | 83 | 1               | 17 |
| Senior Managers           | 5             | 71 | 2               | 29 |
| Employees                 | 105           | 48 | 112             | 52 |

The Board believes that employees require a work environment which is safe, encourages communication and is efficient in terms of the of the Group's working practices

The Board also considers that a focus on health and safety is an essential component of the Group's business success. Source BioScience is committed to providing a safe environment for its employees and visitors and has a clear Health and Safety Policy. The Board and senior management team receive regular reports from the Health and Safety Committee and prompt action is taken where appropriate. There have been no incidents at any of the Group's sites during the year which have required reporting to the Health and Safety Executive.

### Key business and corporate relationships

Source BioScience's business is dependent upon a number of key business relationships developed by employees and with external organisations and individuals. The Board strives to operate the business in an ethical manner and this is made clear in the expectations of employees, advisors and other business partners.

The key customer relationships for the Diagnostics and the Clinical Products businesses are with NHS Trusts, local authorities and other healthcare commissioners and private individuals, for the DNA Sequencing and Genomic Service and the Life Science Research Reagents businesses are with academic institutions throughout Europe and the USA in addition to government and charitably funded research institutions such as the Research Councils UK, and for the Analytical and Regulated Services and the Controlled Environment businesses are with top-tier pharmaceutical companies and a broad spectrum of national and international biopharma and biotechnology companies.

The Group's principal corporate relationships and advisors include N+1 Singer LLP (financial advisor, sponsor and broker), Browne Jacobson LLP (legal advisor), KPMG LLP (auditor and tax advisor) and Barclays (banking and treasury).

### Environmental, social and community

The Board believes that the direct impact of Source BioScience's business upon the environment is relatively low. Source BioScience remains committed to raising awareness of environmental issues which affect our business and minimising the impact of its activities upon the environment.

In line with UK mandatory reporting requirements as set out under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the Directors' Report includes a greenhouse gas ('GHG') emissions report.

Source BioScience aims to conduct its business activities in a socially responsible manner, maintaining integrity and professionalism in dealing with the requirements of investors, employees, suppliers and the local community. The Group has a Corporate and Social Responsibility Officer who reports directly to the Board on these matters and oversees conduct in accordance with the Corporate and Social Responsibility Policy.

### Information on key performance indicators

This Business Review includes six KPIs (shown in the charts) which are viewed by the Board as being important factors by which the progress of the Group can be measured, which have been prepared on a consistent basis in accordance with Section 417 of the Companies Act 2006, unless otherwise indicated against the relevant KPI chart.

# Business Review continued

## Going Concern

The going concern assessment considers whether it is appropriate to prepare the financial statements on a going concern basis

As outlined in this Business Review, the Group has significant financial resources available. As at 31 December 2015, the Group had cash balances of £4.4 million and external bank borrowings with Royal Bank of Scotland of £8.1 million, of which £2.1 million was due within one year. Subsequent to the year end, the borrowings have been refinanced with Barclays to provide increased and more flexible borrowings at lower cost. This has reduced annual loan repayments from £2.1 million to £1.0 million. In addition, in the year ended 31 December 2015 the Group generated cash from operations of £4.6 million (2014: £2.8 million) and has the flexibility to manage cash inflows derived from sales and cash outflows from marketing and capital expenditure.

The Group offers a broad range of services and products across a wide spectrum of customers, and sources from a significant number of suppliers, which ensures the Directors are well placed to manage the business risks and uncertainties set out in this Business Review. In addition, in the short term at least, demand for the Group's services and products remains relatively unaffected by changes in the global economy.

The Group's forecasts and projections demonstrate that the Group has sufficient financial resources to meet its liabilities and covenants over the year from the date of this Annual Report and Accounts.

In accordance with the guidance for Directors of listed companies 'Going Concern and Financial Reporting' and, after making appropriate enquiries, the Directors have a reasonable expectation that the parent company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

## Viability Statement

In accordance with provision C 2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014, the Directors have assessed the viability of the Group over a longer period than the 12 months required by the 'Going Concern and Financial Reporting' provision.

The Directors have assessed the viability of the Company over the three year period to 31 December 2018 and believe that an assessment period of three years is appropriate as the Board maintains a detailed plan encompassing this period, which

takes into account the principal risks set out in this Business Review, and this detailed plan is used in determining the borrowings requirements for the Group.

The Directors conducted this assessment of viability, taking account of the Group's current financial position, future plans and the potential impact of the principal risks and uncertainties documented within this Business Review. The Board maintains a risk management framework which is continually updated and which addresses the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity and this has been considered as part of this assessment of viability.

The three year review considers the Group's profit and loss, cash flows, debt, covenants and other financial ratios over the period. The metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions within the forecasts. This allows the Directors to assess the financial impact of the most severe, but plausible, scenarios that could threaten the viability of the Company alongside the likely effectiveness of the potential mitigating actions that management reasonably believe would be available to the Company over this period.

The principal risks considered were those potentially impacting income streams and cash generation through continuing to serve the Group's current markets and adapt to changing environments outside of the Group's control. In assessing these risks, the Board notes that the Group has a high level of cash generation and risk to any revenue stream can be mitigated by the diverse nature of the Group's services and products to a broad range of customers. Risks can also be mitigated by the flexibility to manage cash inflows derived from sales and cash outflows from marketing and capital expenditure. The Group has also committed debt funding in place for the three years under review.

Based on this review, the Directors have concluded that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over a three year period to 31 December 2018. In assessing the prospects of the Company, the Directors note that such an assessment is subject to a degree of uncertainty that increases with time and that the outcomes cannot be guaranteed, or predicted, with any certainty.

## Conclusion and outlook

The Group has robust strategies to generate attractive levels of business growth, as has been demonstrated consistently over recent years. The acquisitions made during the year have provided new commercial prospects, both from additional services and products and also from cross-selling opportunities. The investment made in upgrading laboratory facilities and manufacturing capability has delivered efficient and scalable infrastructure and serves to consolidate capability and broaden the service offering to leverage the full range of Laboratory Services and Products expertise across the target markets.

The Laboratory Services division has performed strongly during the year. There has been continued growth in DNA Sequencing, along with substantial organic expansion of the Analytical and Regulated Services business, especially stability storage. The enhanced portfolio of analytical chemistry and pharmaceutical testing that Select brings will accelerate the growth of this division.

Capacity and capability constraints faced by the Group's customers, including the NHS, represent an opportunity which can be met by the Group's ability to address both short and long term demand, with rapid turnaround times. Source BioScience is already a valued partner for outsourced diagnostics and the intention is to enhance this status with the continued introduction of new diagnostic services and the migration of testing expertise into other disease areas.

The Products division has received substantial resources and investment to improve manufacturing processes and build the foundations for international expansion of the Products business with key initiatives underway for Clinical Products and Controlled Environment. These have included the commissioning of the state of the art, high throughput serology manufacturing suite, including "Class A" GMP clean room capability, and the design and installation of the world's first -70°C walk-in chamber at the Group's Rochdale facility.

The Board is confident that each of the factors outlined above will contribute to the continuing progress of the Group in 2016 and beyond, and highlight the ambition to become an established and successful international Laboratory Services and Products business.



**Dr Nick Ash**

Chief Executive Officer  
26 April 2016

# The Board of Directors

## Executive Directors

A

**Dr Nick Ash** (age 46)  
Chief Executive Officer

Nick joined Source BioScience in 2005 as CFO, becoming CEO in 2007. Nick oversaw the restructuring of the Group in 2006, determining and implementing the strategy to deliver the Group's current activities. He has led the expansion of the Group through acquisitions and organic growth, investing in the technologies and expertise necessary to deliver the Group's business plan, creating a profitable and cash generative business. Nick is a Chartered Accountant and holds a PhD in Mycology. Prior to joining Source BioScience, he was Finance Director at a regional airline and spent nine years with KPMG.

A

**Dr Nick Leaves** (age 48)  
Chief Operating Officer

Nick joined the Company in 2007, becoming a Board member in 2008. Nick was a co-founder of Geneservice Limited in 2005 via a management buyout from the Medical Research Council ('MRC'). Prior to this, Nick worked for over ten years in complex genetics and genomics, first for Oxford University on asthma and eczema gene-hunting projects and then for the MRC in Cambridge on the mouse genome project. Nick qualified as a microbiologist and worked in the NHS completing a PhD on the molecular methods used to characterise outbreaks of bacterial meningitis.

A

**Mr Tim Metcalfe** (age 46)  
Group Finance Director

Tim joined the Board in September 2014. He is an experienced financial professional and has held senior roles in both private and listed companies, in the retail, manufacturing and IT sectors. Prior to joining Source BioScience, Tim was Group Finance Director at TFM Networks, a provider of telecoms and data management solutions. Tim holds a BA (Hons) in History from Nottingham University and qualified as a Chartered Accountant in 1995, spending twelve years with KPMG prior to moving into industry.

## Non-Executive Directors

B | D

**Mr Laurie Turnbull** (age 66)  
Chairman and Chairman of the  
Nomination Committee

Laurie was appointed Chairman in 2006 and has extensive experience in a senior capacity in both public and private companies. Laurie has enjoyed a 30 year career as a CEO and senior executive. Former Chairman of the venture capital company Texas Group plc, he was responsible for numerous acquisitions and flotations. He has served on the boards of several listed companies in executive and non-executive capacities and has considerable experience in M&A. Laurie is currently a Trustee of the charitable organisation Develop Youth Through Sports Trust.

C | D

**Mrs Pam Liversidge OBE** (age 66)  
Senior Independent Non-Executive  
Director and Chairman of the  
Remuneration Committee

Pam joined the Board in 2014. Pam is a Chartered Mechanical Engineer and Fellow of the Royal Academy of Engineering with over 30 years' experience in the manufacturing and engineering industries. She has significant experience in senior leadership roles across a broad spectrum of companies and other organisations including Chesterfield Royal Foundation Trust Hospital and Sheffield Hallam University. Pam was the first woman to be elected as President of the Institution of Mechanical Engineers and as Master of the Company of Cutlers in Hallamshire.

B | C

**Mr Tim Jackson-Smith** (age 47)  
Non-Executive Director and  
Chairman of the Audit Committee

Tim joined the Board in August 2015. He is an experienced corporate and commercial lawyer with more than 20 years' experience in legal practice, including ten years as a Partner. In addition, Tim has significant, relevant experience in the plc environment, having served for more than eight years in both executive and non-executive director roles at a number of main market and AIM listed companies. Tim holds a Bachelor of Law from Leicester University and a First Class Honours from the College of Law, York.

**A** Member of the Senior Management Team

**B** Member of the Audit Committee

**C** Member of the Remuneration Committee

**D** Member of the Nomination Committee

# Directors' Report

The Directors present their Annual Report and Accounts on the affairs of the Group, including the financial statements and auditor's report for the year ended 31 December 2015.

## Strategic Report

The Directors have presented their Strategic Report on pages 6 to 23, which contains (a) a fair review of the Group's business, and (b) a description of the principal risks and uncertainties facing the Group. The review is intended to be a balanced and comprehensive analysis of (a) the development and performance of the Group's business during the financial year, and (b) the position of the Group's business at the end of that year, consistent with the size and complexity of the business. The review includes, to the extent necessary for an understanding of the development, performance or position of the Group's business, analysis using financial key performance indicators. As Source BioScience holds a premium listing on the Main Market of the London Stock Exchange, the Strategic Report also, to the extent necessary for an understanding of the development, performance or position of the Group's business, includes (a) the main trends and factors likely to affect the future development, performance and position of the Group's business and (b) information about (i) environmental matters (including the impact of the Company's business on the environment), (ii) the Company's employees, and (iii) social and community issues, including information about policies of the Company in relation to those matters and the effectiveness of those policies. This Directors' Report should be read in conjunction with the Strategic Report.

The Strategic Report was approved by the Board of Directors on 26 April 2016.

## Results and dividends

Revenue for the year was £26.3 million (2014: £25.2 million). The Directors do not propose the payment of a dividend (2014: £nil).

## Directors and their interests

The Directors of the Company who held office during the year, and at the year end, are as follows:

### Executive Directors

Dr Nick Ash, Chief Executive Officer  
Dr Nick Leaves, Chief Operating Officer  
Mr Tim Metcalfe, Group Finance Director

### Non-Executive Directors

Mr Laurie Turnbull, Chairman  
Mrs Pam Liversidge, Senior Independent Director  
Mr Tim Jackson-Smith (appointed 25 August 2015)  
Dr Sue Foden (resigned 31 August 2015)

Biographical details of the Directors are given on pages 24 to 25.

Mr Turnbull, Chairman is the longest serving Director and will be entering his tenth year on the Board. To apply best practice, Mr Turnbull offers himself for re-election at the next Annual General Meeting and will be subject to annual re-election thereafter.

Mr Jackson-Smith will offer himself for election, the next Annual General Meeting being the first since his appointment on 25 August 2015 (for biographical details, please see page 25).

No contract existed during the year, or at the year end, in which any Director of the Company was interested, other than service contracts.

None of the Directors have a service contract with the Company requiring more than twelve months' notice of termination to be given. The details of the Directors' contracts are provided in the Directors' Report on Remuneration on pages 46 to 48.

The interests (including the interests of their immediate families and persons connected with the Directors) of the Directors who held office during the year in the ordinary shares of the Company at 26 April 2016, 31 December 2015 and 1 January 2015 were:

**Beneficial Holding**

|                                                 | <b>26 April<br/>2016<br/>Number of shares</b> | <b>31 December<br/>2015<br/>Number of shares</b> | <b>1 January<br/>2015<br/>Number of shares</b> |
|-------------------------------------------------|-----------------------------------------------|--------------------------------------------------|------------------------------------------------|
| <b>Executive Directors</b>                      |                                               |                                                  |                                                |
| Dr Nick Ash                                     | <b>500,000</b>                                | 500,000                                          | 500,000                                        |
| Dr Nick Leaves                                  | <b>1,028,557</b>                              | 1,028,557                                        | 1,028,557                                      |
| Mr Tim Metcalfe                                 | —                                             | —                                                | —                                              |
| <b>Non-Executive Directors</b>                  |                                               |                                                  |                                                |
| Mr Laurie Turnbull                              | <b>2,750,000</b>                              | 2,750,000                                        | 4,750,000                                      |
| Mrs Pam Liversidge                              | —                                             | —                                                | —                                              |
| Mr Tim Jackson-Smith (appointed 25 August 2015) | —                                             | —                                                | —                                              |
| Dr Sue Foden (resigned 31 August 2015)          | —                                             | —                                                | 244,340                                        |

The Directors' interests in share options are set out in the Directors' Report on Remuneration on pages 54 to 55

**Substantial shareholdings**

At the date of preparing this Report, the Company had been notified of the following interests of 3% or more in the Company's ordinary share capital

|                                       | <b>Number of shares</b> | <b>Percentage of<br/>Ordinary share<br/>capital</b> |
|---------------------------------------|-------------------------|-----------------------------------------------------|
| Oryx International Growth Fund        | 82,250,000              | 23.54                                               |
| Henderson Global Investors            | 69,599,203              | 19.92                                               |
| Artemis Investment Management         | 32,203,000              | 9.25                                                |
| Hargreave Hale                        | 22,940,354              | 6.57                                                |
| Continental Investment Partners       | 21,927,490              | 6.28                                                |
| Legal & General Investment Management | 13,052,895              | 3.74                                                |

**Share capital**

The Company has in issue only one class of ordinary share. The Directors were authorised at the last Annual General Meeting to allot and issue ordinary shares up to a nominal amount representing up to 33% of the Company's existing issued share capital

Details of the movements in share capital are given in note 21 to the consolidated financial statements.

**Annual General Meeting**

The Annual General Meeting of the Company will be held at the registered office at 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX at 10.30am on 9 June 2016. All ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting sent to shareholders (see also pages 101 to 107 of this document)

The Directors believe that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders. They recommend that you vote in favour of the proposed resolutions. The Directors will be voting in favour of the proposed resolutions in respect of their own shareholdings in the Company

# Directors' Report continued

## Going Concern and Viability Statements

The Company's Going Concern Statement and Viability Statement are on page 22

## Greenhouse gas emissions

In line with UK mandatory reporting requirements as set out under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, set out below is our greenhouse ('GHG') emissions report.

Source BioScience uses comparatively large amounts of electricity to maintain a range of controlled environment chambers and a large ultra-cold storage facility for our Life Science Research Reagent products

The data reported here, in metric tonnes of carbon dioxide emitted (mtCO<sub>2</sub>e), will be used as baseline data for future comparisons of GHG emissions and is also shown indexed to 2015 Group revenue.

|                                                                                                                   | Total GHG (mtCO <sub>2</sub> e) |        | Indexed GHG (mtCO <sub>2</sub> e)/<br>£1m revenue |      |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|--------|---------------------------------------------------|------|
|                                                                                                                   | 2015                            | 2014   | 2015                                              | 2014 |
| <b>Emissions*</b>                                                                                                 |                                 |        |                                                   |      |
| Scope 1 fuels, including natural gas and that used in company owned vehicles for business miles, and refrigerants | <b>92.0</b>                     | 155.1  | <b>3.5</b>                                        | 6.1  |
| Scope 2 electricity usage both in the UK and overseas                                                             | <b>1679.0</b>                   | 1519.0 | <b>63.8</b>                                       | 59.5 |

Scope 2 usage has increased year on year to reflect the increased size of the Group. However, Scope 1 usage has decreased due to the milder winter

\* Emissions include those from all existing Source BioScience sites with the exception of our Oxford DNA sequencing laboratory which is fully hosted by the University of Oxford and electricity usage is unmetered, and our Scottish DNA sequencing laboratory which is fully hosted by BioCity Scotland and electricity is unmetered. Department for Environment Food and Rural Affairs (DEFRA) conversion factors were used to convert energy use to GHG (<http://www.ukconversionfactorscarbonsmart.co.uk>)

## Research and development

In order to further the Group's business objectives, it engages in research and development projects. During 2015, the nature of this research and development was primarily focused on the development of diagnostic techniques for cancer and other therapeutic areas, methodologies for the extraction and analysis of genomic material from fully consented clinical specimens and the development of software products designed for both internal use and use by third parties. Professor Ellis (Medical Director and member of the senior management team) and Dr Tom Burr (Scientific and Technical Director and member of the senior management team) have very strong connections with the medical and health research community.

Total research and development expenditure in the year was £170,000 (2014: £158,000)

## Employees and equal opportunities

The Group places considerable importance on involving its employees in the evolution of the Group's policies and procedures and matters affecting them as employees. The Board strives to keep employees informed on such matters to the extent regulations allow and good practice indicates. Participation of employees in contributing to the growth of the Group is encouraged through meetings between management and staff who have an opportunity to discuss progress, plans, performance and issues affecting them or the Group.

The Group has an equal opportunities policy under which Source BioScience is committed to ensuring that everyone should have the same opportunities for employment and promotion based on their ability, qualifications and suitability for the work in question, seeking excellence in employees through the implementation of recruitment, incentivisation, performance review, development and promotion processes that are fair to all, and capitalising on the added value that diversity brings. Discrimination in the workplace on the basis of age, gender, disability, ethnic origin, nationality, sexual orientation, gender reassignment, religion or belief, marital status and pregnancy and maternity is unacceptable and will not be tolerated.

### Charitable and political donations

The Group made no charitable donations during the year (2014 £6,000), and no political donations (2014 £nil). As part of its corporate and social responsibility activities, which the Group considers an important element of modern business, Source BioScience actively seeks engagement with the community and is heavily involved in promoting science and health in local schools. The Company sponsors a number of local school football teams each year, regularly invites school children for experience days in its laboratories and runs an apprenticeship programme in multiple departments, including IT, finance and the diagnostic laboratory.

### Supplier payments

The Group is committed to obtaining the best terms for all types of business. Consequently there is no single policy as to the terms used. It is the Group's policy to confirm the terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and abide by them. The number of days purchases represented by Group trade creditors at 31 December 2015 was 70 days (2014 59 days).

### Contractual relationships or other arrangements

The Group has a number of significant agreements with customers and suppliers. However none of these are considered to be critical to the Group. The bank loans taken out for the purposes of the acquisitions of Vindon (September 2013) and Select (August 2015), include change of control provisions.

### Financial risk management

Details of the Group's policy for the management of financial risk are given in note 28 to the consolidated financial statements.

### Bribery Act

In response to the Bribery Act 2010, the Board continues to risk assess all the relevant procedures and processes, implementing and reinforcing the Group's Anti Bribery and Corruption Policy with employees, suppliers and customers.

### Disclosure of information to auditor

The Directors who held office at the date of approval of this Report confirm that so far as they are each aware, there is no relevant information of which the Group's auditor is unaware, and each Director has taken all steps that ought to be taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

### Fair, balanced and understandable

The Directors consider that this Annual Report and Accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

### Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

### Corporate Governance

The Corporate Governance Statements on pages 30 to 32 forms part of the Directors' Report.

By order of the Board



**Dr Nick Ash**

Company Secretary  
1 Orchard Place  
Nottingham Business Park  
Nottingham NG8 6PX  
26 April 2016

# Corporate Governance Statement

## Principles statement

The Board of Directors as a whole is collectively accountable to the Company's shareholders for good corporate governance and is committed to achieving compliance with the principles of corporate governance set out in the 2014 UK Corporate Governance Code as issued by the Financial Reporting Council ('FRC')

The Board is pleased to report full compliance with the UK Corporate Governance Code for the year ended 31 December 2015 and set out below is a statement of how the principles were applied.

## Board of Directors

### Board responsibilities

The Group is controlled through its Board of Directors. The Board's main responsibilities are to provide leadership of the Company and Group within a framework of controls for managing risk, to approve the strategic objectives and to ensure the necessary financial and other resources are made available to enable the Group to meet those objectives. The Board, which meets approximately ten times a year, has a schedule of matters reserved for its approval.

Specific responsibilities reserved to the Board include

- setting Group strategy and approving an annual budget and medium term projections
- reviewing operational and financial performance
- approving major acquisitions, divestments and capital expenditure
- reviewing the Group's systems of financial control and risk management
- ensuring that appropriate management development and succession plans are in place
- reviewing the quality management, environmental and health and safety performance of the Group
- approving appointments to the Board, appointment of the Company Secretary, policies relating to Directors' remuneration and the severance of Directors' contracts
- ensuring that a satisfactory dialogue takes place with shareholders and
- approval of interim and annual financial statements

### Board composition

The Board of Directors currently comprises three Executive and three Non-Executive Directors. Biographical details of the Board of Directors are set out on pages 24 to 25.

The roles of Chairman and Chief Executive Officer are separate and this is documented and reviewed annually. The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. It is the Chief Executive Officer's responsibility to ensure delivery of the strategic and financial objectives.

Between them, the Directors have a considerable breadth of experience and a range of complementary skills. Each brings an independent judgement to bear on matters of strategy, performance, research and development, resources and standards of conduct.

Appropriate training and resources are made available to assist the Directors in the discharge of their duties and each has access to the advice and services of the Company Secretary. All Directors have access to independent professional advice at the expense of the Company, where they deem it necessary to discharge their responsibilities as Directors. Each Director receives a full and tailored induction on joining the Board.

Board papers contain sufficient information to enable the Directors to form a balanced overview of all significant matters to be considered. Such papers are prepared and distributed in advance of the meetings at which these matters are to be discussed.

The number of full scheduled Board and Committee meetings and the attendance records of each Director during the year is indicated below.

|                                                              | Board meetings | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meetings |
|--------------------------------------------------------------|----------------|--------------------------|---------------------------------|-------------------------------|
| <b>Number held</b>                                           | 10             | 3                        | 2                               | 1                             |
| <b>Number attended</b>                                       |                |                          |                                 |                               |
| Mr Laurie Turnbull <sup>1</sup>                              | 10             | 3                        | 1 <sup>1</sup>                  | 1                             |
| Dr Nick Ash                                                  | 10             | —                        | —                               | —                             |
| Dr Nick Leaves                                               | 10             | —                        | —                               | —                             |
| Mr Tim Metcalfe                                              | 10             | —                        | —                               | —                             |
| Mrs Pam Liversidge <sup>2</sup>                              | 10             | —                        | 1 <sup>2</sup>                  | 1 <sup>2</sup>                |
| Mr Tim Jackson-Smith <sup>2</sup> (appointed 25 August 2015) | 4              | 2 <sup>2</sup>           | 1 <sup>2</sup>                  | —                             |
| Dr Sue Foden <sup>3</sup> (resigned 31 August 2015)          | 6              | 1 <sup>3</sup>           | 1 <sup>3</sup>                  | —                             |

— Indicates not a member of that Committee during 2015

Note 1 Ceased to be a member of that Committee from 25 September 2015

Note 2 Became a member of that Committee from 25 September 2015

Note 3 Ceased to be a member of that Committee from 31 August 2015

### Commitment of the Chairman

Details of the Chairman's professional commitments are included in his biography. The Board is satisfied that these other commitments are not such as to interfere with the performance of his duties as Chairman of the Company which are based around a commitment of approximately 50 days per annum.

### Independence of Non-Executive Directors

The Board considers each of the Non-Executive Directors to be independent in character and judgement, none of whom

- has been an employee of the Group within the last five years
- has, or has had within the last three years, a material business relationship with the Group
- receives remuneration other than Director's remuneration
- has close family ties with any of the Group's advisors, Directors or senior employees
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies or
- represents a significant shareholder
- Mr Turnbull will be entering his tenth year on the Board. To apply best practice, he will offer himself for re-election at the next Annual General Meeting and annually thereafter as described on page 26

### Evaluation of the Board and its Committees

The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors. The Senior Independent Non-Executive Director conducts the annual performance evaluation of the Chairman, taking into account the views of all Directors.

### Dialogue with key shareholders

The Directors seek to build on a mutual understanding of objectives between the Group and its key shareholders, in particular by communicating regularly throughout the year and encouraging them to participate in the Annual General Meeting, which all the Directors normally attend. The Non-Executive Directors are available to meet with shareholders, should this be desired, and each communicates regularly with the Group's financial advisor and broker. The Chairman ensures that the views of shareholders are communicated to the Board as a whole.

The Board has made disclosures regarding the Group's strategy, objectives, resources, risks and financial performance and position within the Business Review as set out on pages 10 to 23.

# Corporate Governance Statement continued

## Committees of the Board

Certain Board responsibilities are delegated to Committees of the Board

### Senior Management Team

The senior management team comprises the Executive Directors together with the divisional and functional heads. The senior management team is chaired by Dr Ash and normally meets once a month to discuss the performance of the Group's business units and other issues as they arise in the course of the Group's activities.

The Board has delegated the following responsibilities to the senior management team:

- implementation of the strategies and policies of the Company as determined by the Board
- development and recommendation of strategic plans for consideration by the Board that reflect the longer term objectives and priorities established by the Board
- monitoring of the operational and financial results against plans and budgets
- prioritising the allocation of financial, technical and human resources and
- developing and implementing risk management systems

### Audit Committee

The work of the Audit Committee is addressed in more detail on pages 33 to 36 by its Chairman, Mr Jackson-Smith.

### Remuneration Committee

The work of the Remuneration Committee is addressed in more detail on page 49 by its Chairman, Mrs Liversidge.

### Nomination Committee

Source BioScience recognises the importance of diversity in the board room and currently has Mrs Pam Liversidge as its Senior Independent Non-Executive Director. The importance of achieving an appropriate gender balance throughout the Group is also recognised, the senior management team currently comprises ten members, three of whom are women.

The Nomination Committee has not set, and does not intend to set, a specific target for the number of female members on the Board and wish to continue to appoint the best candidate available for any particular role. However, in setting the criteria for selection of candidates, for both executive and non-executive roles, the Group is conscious that it is possible to inadvertently discourage the successful candidacy of women and intends to bear this in mind for all future appointments and to continue to have regard to the benefits of diversity, including as to gender.

#### Role of the Nomination Committee

The Nomination Committee recommends the appointment of new Directors to the Board and makes recommendations on Board composition and balance. The Nomination Committee meets as often as necessary to fulfil this function.

The terms of reference of the Nomination Committee have been documented and agreed by the Board of Directors and are available from the Company Secretary. The key terms are as follows:

- to review and evaluate the Board structure, size, balance of skills and composition and to make recommendations to the Board with regard to adjustments that are deemed necessary
- consider succession planning for Directors, in particular the Chairman and Chief Executive Officer, other senior management and membership of Audit and Remuneration Committees and
- prepare a description of the roles and capabilities required for a particular appointment, and be responsible for identifying and nominating candidates for approval of the Board to fill Board vacancies

#### Composition of the Nomination Committee

The Nomination Committee comprises Mr Turnbull (Committee Chairman) and Mrs Liversidge.

# Audit Committee Report

Tim Jackson-Smith  
Non-Executive Director and Chairman  
of the Audit Committee

The responsibilities and work carried out by the Audit Committee in the year under review are set out in the following report

## Composition and governance

The Committee comprises two independent Non-Executive Directors, Mr Tim Jackson-Smith (Chairman of the Committee), and Mr Laurie Turnbull, both of whom have the skills and experience required to fully discharge their duties. Mr Turnbull meets the requirements of recent and relevant financial experience.

The Chief Executive Officer and Group Finance Director also generally join at least part of Audit Committee meetings by invitation.

The Committee Chairman may call a meeting at the request of any member of the Committee or the Company's external auditor. The Audit Committee meets privately with the external auditor at least twice a year. The external auditor has direct access to the Chairman of the Committee outside of formal Committee meetings.

The Audit Committee meets at least three times a year. The primary role of the Committee, which reports its findings to the Board, is to ensure the integrity of the financial reporting and audit process and the maintenance of sound internal control and risk management systems. It is responsible for monitoring and reviewing

- the integrity of the Group's financial statements and any formal announcements relating to its financial performance
- the Group's internal financial controls and internal control and risk management systems
- the effectiveness of the external audit process and making recommendations to the Board on the appointment, re-appointment and removal of the external auditor
- policy on the engagement of the external auditor to supply non-audit services
- the taking of specific responsibility for certain key areas of risk management to support the Board's role in overseeing a business wide approach to risk identification, management and mitigation

Its terms of reference are available on request from the Company Secretary.

The Audit Committee is entitled to obtain, at the reasonable expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference.

# Audit Committee Report continued

## Activities during 2015

The Audit Committee met on three occasions during 2015. The meetings of the Committee coincided with key dates in the financial reporting and audit cycle. The external auditor, KPMG LLP, attended two of the meetings.

The Audit Committee discharged its responsibilities by

- reviewing the Group's draft financial statements and half year report prior to Board approval and reviewing the external auditor's detailed reports thereon and also reporting to the Board the significant issues that the Committee considered in relation to the financial statements and how those issues were addressed, having regard to matters communicated to it by the auditor
- reviewing the appropriateness of the Group's accounting policies
- reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditor in accordance with the policy it has adopted
- reviewing the external auditor's plan for the audit of the Group's accounts, which included key areas of focus on the accounts, confirmations of auditor independence and proposed audit fee
- reviewing an annual report on the Group's Risk Management Framework and system of internal control, assessing its effectiveness and reporting to the Board on the results of the review
- assisting the Board with overseeing a business wide approach to risk identification, management and mitigation
- reviewing the arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters

## Financial reporting and significant areas of judgement

The Audit Committee reviewed a wide range of financial reporting and related matters in respect of the Company's half year and annual results statements and the Annual Report prior to their consideration by the Board

Reports highlighting key accounting matters and significant judgements were also received from KPMG LLP in respect of the year end financial statements and discussed by the Committee. In particular, these included the significant judgement areas of the impairment of goodwill and acquisition accounting.

### Impairment of goodwill

Under IFRS, goodwill arising on acquisitions is tested for impairment at each reporting date based on projected cash flows discounted to calculate their net present value. Details of the assumptions used in these valuations are set out in note 9 on pages 80 to 81

The Committee examined the cashflow projections for each of the Group's cash generating units and reviewed the discount rates used in the calculations. Each of these components were discussed with KPMG LLP. The Committee concluded that with increasing profitability forecast for each of the cash generating units, there was headroom in the impairment test valuations and was therefore comfortable that no impairment was required.

### Acquisition accounting

Under IFRS, the consideration payable in respect of acquisitions should be allocated to the fair value of tangible assets, intangible assets and liabilities acquired. This will involve identifying and valuing significant previously unrecognised intangible assets and adjusting the acquired entity's books to restate identified assets and liabilities to their fair value

For each of the acquisitions in the year, the Committee assessed whether any intangible assets were acquired. In relation to the acquisition of Select, customer relationships were identified as an intangible asset. The Committee examined the multi period excess earning model used in the valuation and reviewed the key assumptions within this relating to customer attrition rate, forecast revenue growth and discount rate

The Committee also reviewed the adjustments to identified assets and liabilities and the adequacy of disclosure of the acquisitions in the Group's financial statements. Each element was discussed with KPMG LLP. The Committee concluded that the fair values of assets and liabilities at acquisition have been correctly identified, valued and disclosed in the Group's financial statements

### Revenue recognition

In prior years, revenue recognised relating to pre-paid DNA sequencing vouchers has been considered to be a significant area of judgement. However, the voucher programme has been in place for several years and redemption sales are now less volatile

This, coupled with the diversification into additional revenue streams has reduced the risk of misstatement. As a result, the Committee no longer believes this represents a significant area of judgement.

Analysis to support the Going Concern and Viability Statements given on page 22 was also reviewed with the Committee receiving reports from management on this matter.

Following consideration of the matters presented to it and discussion with both management and KPMG LLP, the Committee was satisfied that the significant judgements made were justified and that the financial reporting disclosures made were appropriate

## External auditor

### Audit and non-audit fees

The Audit Committee is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. It has developed and implemented a policy on the supply of non-audit services by the external auditor to ensure their continued objectivity and independence. The Committee is satisfied that the provision by KPMG LLP of non-audit services currently provided does not impair their independence or objectivity.

The Audit Committee has approved the range of services that may be provided by the external auditor. These include taxation compliance services and transaction due diligence advisory services on projects. Subject to approved authorisation limits, the services require prior authorisation from either the Chief Executive Officer or the Chairman of the Audit Committee or the full Audit Committee. The Committee is satisfied that the majority of the tax services supplied by KPMG LLP during the year were compliance related and did not impair their independence.

During 2015 the fees for non-audit services amounted to £93,000 compared with the audit fee of £82,000.

### Auditor independence

The Committee received and reviewed written confirmation from the external auditor on all relationships that, in their judgement, may bear on their independence. The external auditor have also confirmed that they consider themselves independent within the meaning of UK regulatory and professional requirements.

Prior to joining the Company as a Non-Executive Director in August 2015, I had been retained as an ambassador by KPMG LLP to assist with relationship development. This was terminated promptly upon identification in January 2016 as neither the Board nor KPMG LLP considered this arrangement to be appropriate in the context of auditor independence. Both the Board and KPMG LLP have concluded that KPMG LLP's independence as the Company's auditor was not impaired as a result of this arrangement.

The UK Corporate Governance Code has recommended that companies in the FTSE 350 index put their external audit contract out to tender at least every ten years. KPMG LLP were appointed on 5 November 2008 following a competitive tender to be the auditor for the year ending 31 December 2008. In addition, the audit partner was rotated in 2015 and must be rotated every five years. The Committee has considered this and, to adopt best practice, it has recommended to the Board that the external audit contract be put out to tender when the ten years expires in 2018. Mindful of Financial Reporting Council advice on the impracticality of all companies conducting a tender exercise at the same time, the precise timing of this exercise will be kept under review and may, indeed, be conducted at any time prior to 2018.

Further reform to auditor independence requirements is due to become effective for financial years beginning on or after 17 June 2016 which will require the Company to put the audit out to tender for the year ending 31 December 2018.

### Performance and effectiveness

The performance and effectiveness of the external auditor was formally reviewed by the Committee taking into account the views of Directors and senior management on such matters as independence, objectivity, proficiency, resourcing and audit strategy and planning. The Committee concluded that the performance of the external auditor remained satisfactory following the review. The performance of the external auditor will continue to be reviewed annually. The Committee has recommended to the Board that KPMG LLP should be appointed as the Company's external auditor for the next financial year. Following this recommendation, the Board is proposing what effectively amounts to the re-appointment of the external auditor to shareholders at the Annual General Meeting.

# Audit Committee Report continued

## **Internal control and risk management systems**

In applying Principle C 2 of the UK Corporate Governance Code, which states that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the Directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control and risk management to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations. The system of internal control and risk management is designed to manage rather than eliminate the risk of failure to observe business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The Group views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities.

The Directors have continued to review the effectiveness of the Group's system of internal controls, including strategic, commercial, operational, compliance and financial controls and risk management systems. These reviews have included an assessment of internal controls, and in particular internal financial controls, management assurance of the maintenance of control and reports from the external auditor on matters identified in the course of its statutory audit work. The Directors believe that the Company maintains an effective embedded system of internal controls and complies with the Financial Reporting Council's Guidance to Directors on the UK Corporate Governance Code. Procedures are in place to take action if any significant failings or weaknesses are identified in the Board's review of internal controls.

There is a clearly defined organisational structure. The Group operates a comprehensive annual planning and budgeting process. Corporate objectives are defined at the start of each year and cascaded throughout the organisation. The performance of each part of the business is reviewed by the senior management team and the Board. Corrective actions are taken where performance does not meet internal expectations.

The Group does not have an independent internal audit department and this is not unusual for a Group of this size, scale and complexity. It is felt that the financial record keeping is robust and capable of highlighting significant departures from procedures. Other areas of risk review and management that may normally be conducted by an internal audit department are covered by the Board and its Committees as highlighted above in this Audit Committee Report.



### **Tim Jackson-Smith**

Non-Executive Director and Chairman of the Audit Committee

On behalf of the Board of Directors

26 April 2016

# Directors' Report on Remuneration

Mrs Pam Liversidge  
Senior Independent Non-Executive  
Director and Chairman of the  
Remuneration Committee

This report sets out details of the Remuneration Policy for Executive and Non-Executive Directors, describes how the Remuneration Policy is implemented and discloses the amounts paid relating to the year ended 31 December 2015

The Directors' Remuneration policy was passed by binding shareholder vote at the Company's 2015 Annual General Meeting. This policy will be subject to further binding votes every three years or sooner where any changes are made. No substantial changes are proposed at the 2016 Annual General Meeting. The Remuneration Policy Report on pages 39 to 48 sets out this policy for completeness and transparency.

The Annual Report on Remuneration on pages 49 to 59, which describes how policy has been implemented in the year under review will be subject to an advisory vote at the Annual General Meeting.

This report is made by the Board and prepared on its behalf, and for its approval, by the Remuneration Committee. It provides the Company's statement of how it has applied the principles of good governance as set out in the UK Corporate Governance Code and those required by the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the '2008 Regulations').

Further, the Directors' Remuneration Report Regulations require the Company's auditor to report to the Company's members on the 'auditable part' of the Directors' Report on Remuneration and to state whether in their opinion that part of the Report has been properly prepared in accordance with the Companies Act 2006 and the 2008 Regulations. This Report has therefore been divided into sections for audited and unaudited information.

## **ANNUAL STATEMENT BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE**

I am pleased to present the Remuneration Committee's report outlining our future remuneration policy and providing details of the remuneration of the Directors for the year ended 31 December 2015.

The Directors' Report on Remuneration includes a Policy Report, setting out our remuneration policy, and an Annual Report on Remuneration, setting out how we went about implementing existing policy over the year to 31 December 2015 and how we intend to implement policy in the future.

# Directors' Report on Remuneration continued

## Context to the Remuneration Committee's decisions

As described in the Chairman's Statement, 2015 has been another year of significant progress for the Company. A key focus for 2015 was the acquisition and integration of the Select business. This transaction has enhanced the Group's Laboratory Services capability to provide stability testing and Quality Control product and batch release testing services that are highly complementary with the Group's stability storage services. As reported in the Business Review, the integration has progressed well and to plan.

With regard to the Group's longer term performance, 2015 has seen another year of record financial performance and continued improvement demonstrated by the key performance indicators of profit before tax, EBITDA and earnings per share.

## Remuneration decisions

The Remuneration Committee continually reviews the senior executive Remuneration Policy to ensure that it can retain and motivate senior managers and Executive Directors, ensuring that the future growth of the Group can be delivered against its strategic goals.

In formulating its policy, the Remuneration Committee continues to observe good governance guidelines, the needs of the business in maintaining competitive and incentivising remuneration along with the views of shareholders and shareholder representative bodies.

Against this backdrop, the Remuneration Committee will not be making any substantial changes to the policy for the current financial year.

The key decisions made by the Remuneration Committee during the year were

- salary increases for Executive Directors (with effect from 1 January 2016), which are consistent with the performance-related salary increases awarded to Group employees and to maintain our policy objective of offering base salaries that are in line with those offered by companies of a similar size, international reach and complexity
- the approval of Annual Bonus Plan awards for the Executive Directors for the year ended 31 December 2015
- a grant award of 300% of base salary to Executive Directors under the 2015 Long-Term Incentive Plan ('2015 LTIP')

## Risk

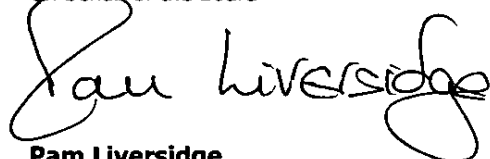
In terms of risk, the Committee is comfortable that the current arrangements do not encourage undue risk-taking. The introduction in 2015 of the 2015 LTIP ensures that we continue to deliver a substantial proportion of reward based on long-term performance and also ensure alignment between our Executive Directors and shareholders.

## Alignment and dialogue with shareholders

At the 2015 Annual General Meeting, we were pleased that over 99.9% of shareholders voted to approve last year's Directors' Report on Remuneration.

I look forward to your continuing support of our remuneration policy at the 2016 Annual General Meeting.

On behalf of the Board



**Pam Liversidge**

Senior Independent Non-Executive Director and  
Chairman of the Remuneration Committee  
26 April 2016

## DIRECTORS' REMUNERATION POLICY

This part of the Directors' Report on Remuneration sets out the remuneration policy for the Company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the '2013 Regulations'). The policy has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders and describes the policy to be applied in relation to the current financial year and future financial years.

The policy set out below was passed by binding shareholder vote at the Company's 2015 Annual General Meeting. The Committee has applied the policy with effect from 1 January 2015. The policy will be subject to further binding votes every three years or sooner where any changes are made. No substantial changes are proposed and the policy is reproduced below for completeness and transparency.

### Overview of Remuneration Policy

The Group's remuneration policy is to ensure that the remuneration of Executive Directors and senior managers properly reflects their duties and responsibilities and is sufficient to recruit, retain and motivate high-quality executive talent, taking into account their geographical location and the territories which their responsibilities cover, whilst aligning their interests as closely as possible with the interests of shareholders. The remuneration of the Executive Directors has been structured to provide a significant performance-related element linked to the achievement of stretching performance targets. The Committee keeps the Company's remuneration policy under review to ensure that an appropriate balance between fixed and variable remuneration is maintained.

More generally, the Committee also takes into account the principles of sound risk management when setting reward and takes action to satisfy itself that the remuneration structure does not encourage undue risk.

There are four main elements of the remuneration for Executive Directors and senior managers:

- basic annual salary
- other customary benefits such as pension contributions, private medical insurance, permanent health insurance and, in certain situations, company car benefits
- annual performance-related remuneration which is delivered as a combination of cash and shares
- long term incentive arrangements in the form of performance shares under the 2015 LTIP

The policies relating to each of the main components of Executive Directors' remuneration are summarised in the tables overleaf.

# Directors' Report on Remuneration continued

## Salary

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To provide competitive fixed remuneration that will attract, retain and motivate high quality key employees and reflect their experience, duties and geographical location                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Operation                                                              | <p>Reviewed annually</p> <p>Benchmarked periodically against relevant market comparators as appropriate, including companies of a similar international reach and complexity</p> <p>Individual pay levels determined by reference to performance, skills and experience in post</p> <p>Consideration given to the pay levels in the country in which the Executive Director lives and works and the wider salary increases across the Group more generally</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Maximum opportunity                                                    | <p>Salaries for the year ended 31 December 2016, effective 1 January 2016, are as follows</p> <ul style="list-style-type: none"> <li>• Chief Executive Officer      £174,000</li> <li>• Chief Operating Officer      £141,600</li> <li>• Group Finance Director      £130,000</li> </ul> <p>These salary levels will be eligible for increases during the three-year period that the Remuneration Policy operates</p> <p>During this time, salaries may be increased each year. The Committee will be guided by general economic conditions and the salary increase budget set for the Group</p> <p>Increases beyond those linked to the workforce (in percentage of salary terms) may be awarded in certain circumstances at the Board's discretion (based on the recommendation of the Committee) such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group and/or where comparator data suggest this is required</p> |
| Framework used to assess performance and for the recovery of sums paid | The Committee considers individual salaries at its appropriate Committee meeting each year taking due account of the factors noted in operation of the salary policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

## Benefits

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To provide competitive benefits in line with market practice                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Operation                                                              | <p>The Company typically provides the following benefits</p> <ul style="list-style-type: none"> <li>• car allowance</li> <li>• permanent health insurance</li> <li>• private medical insurance</li> <li>• death in service cover</li> <li>• other ancillary benefits, including relocation expenses/arrangements (if circumstances justify this on a case by case basis)</li> </ul> <p>Where revised benefits are offered to employees more generally within a geographic location or across the Group, Executive Directors are likely to be eligible to receive those benefits</p> |
| Maximum opportunity                                                    | In the year ended 31 December 2015, the maximum cost of providing benefits (based on taxable value of the benefits) was 12% of salary in total. However, the cost of some of these benefits is not pre-determined and may vary from year to year based on the overall cost to the Company in securing these benefits for a population of employees (particularly permanent health insurance, private medical insurance and death in service cover)                                                                                                                                  |
| Framework used to assess performance and for the recovery of sums paid | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

## Pension

|                                                                        |                                                                                   |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To provide a market competitive, yet cost effective, long term retirement benefit |
| Operation                                                              | A Company contribution to a defined contribution scheme                           |
| Maximum opportunity                                                    | Company contributions of up to 12% of salary                                      |
| Framework used to assess performance and for the recovery of sums paid | None                                                                              |

# Directors' Report on Remuneration continued

## Annual Bonus Plan

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To incentivise annual delivery of performance objectives relating to the short term goals of the Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Operation                                                              | <p>Up to 50% of salary will be paid in cash. Any bonus in excess of 50% of salary will be granted as shares (known as 'bonus shares') subject to a three year lock in period. There are no further performance targets on the element paid in shares.</p> <p>Annual Bonus Plan awards are awarded primarily against performance on a sliding scale against challenging profit-based and EBITDA-based targets, against targets related to the Company's other key performance indicators (e.g. turnaround times for delivery of key components of the service and products portfolio) in addition to the achievement of personal performance objectives. The Committee adjusts these targets each year to ensure there is alignment with the Group's strategic objectives.</p> <p>Malus and clawback arrangements will apply to the Annual Bonus Plan compliant with the FRC UK Corporate Governance Code.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Maximum opportunity                                                    | <p>100% of salary</p> <p>Participants may be entitled to dividends or dividend equivalents on the bonus shares representing the dividends paid during the lock in period.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Framework used to assess performance and for the recovery of sums paid | <p>Details of the performance measures used for the Annual Bonus Plan relating to the previous financial year and performance against them, as well as targets set for the year under review, are provided in the Annual Report on Remuneration.</p> <p>Awards are determined based on performance against the Company's key performance indicators and paid following the approval of the Group's audited results for the year by the Board.</p> <p>The majority of the award will be earned on the basis of stretching profit-based and EBITDA-based targets, this being specific and measurable.</p> <p>A proportion of the award may also be based on targets related to the Company's other key performance indicators (e.g. turnaround times for delivery of key components of the service and products portfolio in addition to the achievement of personal performance objectives).</p> <p>Indicative targets for the bonus for the coming year are set out in this Directors' Report on Remuneration below, in so far as commercial sensitivity and good practice allow.</p> <p>No more than 25% of salary in total is earned at the threshold performance level for each financial measure, with a graduated scale operating thereafter through to maximum bonuses being earned for out-performance of the targets for the year.</p> |

### Long-Term Incentive Plan ('2015 LTIP')

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To drive superior long-term financial performance and shareholder returns, aid retention and align the interests of Executive Directors with shareholders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Operation                                                              | An award of performance shares under the 2015 LTIP which vest after three years subject to continued service (save in "good leaver" circumstances) and the achievement of performance conditions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Maximum opportunity                                                    | Initial awards in 2015 under the 2015 LTIP will be up to a maximum of 300% of salary. However, where an initial award has been granted to an Executive Director, no subsequent 2015 LTIP awards can be made for the following three years                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Framework used to assess performance and for the recovery of sums paid | <p>The performance measures for the initial awards in 2015 are based on earnings and the Company's share price</p> <p>A free cashflow and return on capital employed underpin will apply</p> <p>A one year holding period applies following the vesting of any 2015 LTIP award</p> <p>25% vesting for both measures for "threshold" performance and 100% vesting for "maximum" performance</p> <p>The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year</p> <p>The Committee will review and set weightings and targets before each grant to ensure they remain appropriate and support the business strategy. The Committee may change the balance of the measures or use different measures for subsequent awards as appropriate</p> |

### Share Ownership Guidelines

|                                                                        |                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To align interests of Executive Directors with shareholders                                                                                                                                                                                                                                                                                   |
| Operation                                                              | <p>The shareholding guideline is 100% of basic salary</p> <p>The Committee will encourage the Executive Directors to build up shares to this guideline over a five year period and then subsequently hold a shareholding equivalent to this guideline</p> <p>The Committee will monitor progress towards the guideline on an annual basis</p> |
| Framework used to assess performance and for the recovery of sums paid | None                                                                                                                                                                                                                                                                                                                                          |

# Directors' Report on Remuneration continued

## **Annual Bonus Plan and 2015 LTIP**

The Committee will operate the Annual Bonus Plan and 2015 LTIP arrangements according to their respective rules and in accordance with the Listing Rules and HMRC rules, where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include the following (albeit with quantum and performance targets restricted to the descriptions detailed in the policy tables on pages 42 and 43).

- who participates
- the timing of grant of award and/or payment
- the size of an award and/or a payment
- performance requirements
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group
- determination of a "good"/"bad leaver" for share option plan purposes based on the rules of each plan and the Annual Bonus Plan and the appropriate treatment chosen
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, corporate transactions)
- the annual review of performance measures weighting and the targets for the Annual Bonus Plan and share option plans from year to year

The Committee also retains the ability to adjust the targets and/or apply different measures and alter weightings for the Annual Bonus Plan and 2015 LTIP arrangements if certain events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

An award may be forfeit on cessation of employment in certain circumstances as outlined in "Directors' service contracts and payments for loss of office" on page 46.

## **Choice of performance measures and approach to target setting**

The performance metrics that are used for the Annual Bonus Plan awards are a subset of the Group's key performance indicators.

Under the Annual Bonus Plan, PBT and EBITDA are used as the primary performance metrics. Other metrics based on the Company's key performance indicators and achievement of personal performance objectives are also used to provide clear alignment with the overarching strategy of achieving profitable, cash-generative growth.

Under the 2015 LTIP, earnings per share and the Company's share price are used as the performance metrics. These ensure that there is alignment with shareholder interests and a sharp focus on executing our business strategy, supporting our organic growth and acquisitions to deliver sustained value to our shareholders.

Targets are set based on sliding scales that take account of internal planning and external market expectations for the Company. 2015 LTIP awards vest on delivering threshold performance levels, with maximum rewards requiring substantial out-performance of the challenging plans approved at the start of each year.

Further details of the Annual Bonus Plan metrics used for the year ended 31 December 2015 are set out in the Annual Report on Remuneration. The targets relating to the Annual Bonus Plan for the year ending 31 December 2016 are considered to be commercially sensitive and will not therefore be disclosed in advance. They will be disclosed in next year's Annual Report on Remuneration, along with disclosure of performance against them and the payments resulting.

## **Differences in remuneration policy for Executive Directors compared with other employees**

The Committee is made aware of pay structures across the Group when setting the remuneration policy for Executive Directors.

The workforce at Source BioScience is increasingly geographically diverse and so local salary budgets are often influenced by the differing working conditions, regulations and economic conditions (including rates of inflation) in each location. As a result, when determining basic salary increases, the Committee considers the general basic salary increase and prevailing conditions for the country in which the Executive Director is based and, in addition, the general basic salary increase across the Group.

The key difference between Executive Directors' remuneration and that of other employees is that, overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay. Annual bonus awards are available to all employees, but the

percentage of salary opportunity is targeted at those with greater potential to influence performance. Performance targets, whilst being in line with Group objectives, are tailored to incentivise employees against targets which are relevant to the business and role in which they operate. As a result, the level of variable pay varies by level of employee within the Group and is informed by the specific responsibilities of each role and local market practice as appropriate.

### **How the views of employees are taken into account**

The Company does not actively consult with employees on executive remuneration. The Group has a diverse workforce operating in different countries, with various local pay practices, which would make any cost-effective consultation impractical. However, the Committee is made aware of overall pay and employment conditions in the wider workforce and takes this into account when determining Executive Director and senior manager remuneration policy.

### **How the views of shareholders are taken into account**

The Remuneration Committee considers shareholder feedback received in relation to the Annual General Meeting each year. This feedback, together with any additional feedback received during any communications from time to time, is then considered as part of the Company's annual review of remuneration policy.

### **Reward scenarios**

The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The chart below illustrates how the total pay opportunities for the Executive Directors vary under three different performance scenarios: fixed only, on-target and maximum. When reviewing the chart, it should be noted that it has been prepared based on the policy detailed above and ignores, for simplicity, the potential impact of future share price growth.

#### **Assumptions:**

- "Fixed only" is base salary, benefits and pension
- "On-target" assumes 62.5% payable of the 2016 Annual Bonus Plan and 62.5% 2015 LTIP
- "Maximum" assumes 100% payable of the 2016 Annual Bonus Plan and 100% 2015 LTIP

Salary levels (on which other elements of the package are calculated) are based on those applying on 1 January 2016. The value of benefits is based on the cost of supplying those benefits (as disclosed on page 41) for the year ended 31 December 2015. The pension value is set at 12% of the salary. The 2015 LTIP value is based on applying the initial awards in 2015 of 300% of salary over a three year period. Accordingly, for the purposes of the chart, it has been assumed that the 2015 LTIP value for maximum performance is 100% of salary and 62.5% of salary for on-target performance.

# Directors' Report on Remuneration continued

## Recruitment and Promotion Policy

For Executive Director remuneration and/or promotion situations, the Committee will follow the guidelines outlined below

| Remuneration element | Policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Base salary          | Salary for a new hire (or on promotion to Executive Director) would be set at a level sufficient to attract the best candidate available to fill the role, taking into account the Group's position and strategy. For example, it may set the salary of a new hire at a premium to those paid to the predecessor if this was necessary to attract a candidate with experience in a business of the size which the Group aspires to become or, conversely, could be set at a discount to those offered in companies of a similar size, geographical reach and complexity initially, with a series of planned increases over subsequent years, in order to bring the salary to the desired level, subject to individual performance |
| Benefits             | Benefits will be set in accordance with the Company's remuneration policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment and ensure flexibility is retained to pay for legal fees and other costs incurred by the individual in relation to their appointment. Consideration may need to be given to particular elements of benefit packages if a new Director was recruited outside of the UK                                                                                                                                                                                                                                                             |
| Pension              | A defined contribution or cash supplement at the level provided to current Executive Directors, again subject to particular considerations for a recruit from outside the UK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Annual Bonus Plan    | <p>The Annual Bonus Plan will operate as outlined for current Executive Directors, with the respective maximum opportunity, albeit usually pro-rated for the period of employment. Depending on the timing and responsibilities of the appointment, it may be necessary to set different performance measures and targets initially.</p> <p>The maximum ongoing incentive opportunity under the Company's policy is 100% of salary</p>                                                                                                                                                                                                                                                                                            |
| 2015 LTIP Awards     | <p>2015 LTIP awards will be granted in line with the policy outlined for the current Executive Directors. An award may (and would usually) be made upon appointment (subject to the Company not being prohibited from doing so). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant and further awards may also be considered.</p> <p>Under the 2015 LTIP an initial award of up to a maximum of 300% of salary can be granted. If an initial award of the maximum is granted then no subsequent 2015 LTIP awards can be made for the following three years</p>                                                                    |

## Directors' service contracts and payments for loss of office

The policy of the Company is to have service contracts for all the Executive Directors that continue indefinitely unless determined by their notice period

The Committee's policy is to set notice periods of up to 12 months for the Company to dismiss an Executive Director. Should notice be served by either party, the Executive Director will be able to continue to receive basic salary and other emoluments (but not bonus) for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave

A bonus is only payable if the relevant Director is in the employment of Source BioScience on the date on which bonuses are paid by the Company following the end of the relevant financial year (the "Payment Date") and he has not given notice of intention to leave employment. The Company's policy in future years (including 2016), will include the ability for payments to be made to Executive Directors on a pro-rata basis if the Director is a "good leaver" during the year i.e. in certain prescribed circumstances, such as ill health, injury or disability, redundancy, retirement, transfer or sale of the employing company, or other circumstances at the discretion of the Committee. If the Company dismisses the Director on or after the final date of the financial year but before the Payment Date (other than for reasons of gross misconduct) he will remain eligible to receive the bonus.

Executive Directors' service contracts may be terminated without notice for certain events, such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such event occurs.

At the Company's discretion, Executive Directors may receive a payment in lieu of notice. The payment in lieu of notice would relate to the unexpired notice period and include base salary and other emoluments (but not bonus).

The default treatment for share option awards previously granted to an Executive Director will be determined based on the relevant plan rules.

The default treatment of Annual Bonus Plan shares is that they remain subject to malus and clawback and "good"/"bad leaver" provisions during the lock in period.

The default treatment of 2015 LTIP awards will be for unvested awards to lapse on cessation of employment. However, in certain prescribed circumstances, such as retirement, injury or disability, redundancy, transfer or sale of the employing company, or other circumstances at the discretion of the Committee (reflecting the circumstances that prevail at the time) "good leaver" status may be applied. If treated as a "good leaver", awards will remain subject to performance conditions, which will be measured over the performance period from grant to the normal vesting date, and may be reduced pro rata to reflect the proportion of the performance period actually served (although the Committee can decide not to pro rate if it considers it inappropriate to do so). The Committee can also decide, in exceptional circumstances, to allow the award to vest on the date of cessation, subject to performance to that date and pro rating.

In relation to the current Executive Directors' service contracts, Dr Ash entered into a service agreement in August 2006 (as amended in February 2007 following his becoming Chief Executive), Dr Leaves entered into a service agreement in June 2008 in respect of his appointment which commenced on 27 June 2008 and Mr Metcalfe entered into a service agreement in September 2014, in respect of his appointment which commenced on 4 September 2014.

### External appointments

The Committee recognises that Executive Directors may be invited to become Non-Executive Directors in other companies and that these appointments can enhance their knowledge and experience to the benefit of the Company. It is the Company's policy that Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services.

None of the current Executive Directors holds any such remunerated external appointment.

### Non-Executive Directors' letters of appointment

Non-Executive Directors do not have service contracts but are appointed pursuant to letters of appointment renewable, usually, for periods of three years. The appointment of the Non-Executive Directors may be terminated by either the Director or the Company giving 12 months' notice in writing. Continuation of an appointment is contingent on re-election by the shareholders as required by the Articles of Association.

Mr Turnbull has a letter of appointment with the Company dated 23 November 2006 (updated 1 December 2013). Mr Turnbull's appointment is for a period of three years from 1 December 2013 which can be extended for a further three years upon expiry. As Mr Turnbull will be entering his tenth year on the Board, to apply best practice he will offer himself for re-election at the next Annual General Meeting and will be subject to annual re-election thereafter. The appointment may be terminated at any time by either party giving to the other 12 months' prior written notice. If the Company gives notice it may, at its discretion, terminate the appointment with immediate effect by paying an amount in respect of the fee for the notice period. Mr Turnbull's appointment as Chairman will terminate forthwith and without any compensation for loss of office if he is removed as a Director by resolution passed at a general meeting or if he ceases to be a Director pursuant to any provision of the Articles of Association.

# Directors' Report on Remuneration continued

Mrs Liversidge has a letter of appointment with the Company dated 3 July 2014. Mrs Liversidge's appointment is for a period of three years from 3 July 2014 which can be extended for a further three years upon expiry. The appointment may be terminated at any time by either party giving to the other 12 months' prior written notice. If the Company gives notice it may, at its discretion, terminate the appointment with immediate effect by paying an amount in respect of the fee for the notice period. Mrs Liversidge's appointment as Non-Executive Director will terminate forthwith and without any compensation for loss of office if she is removed as a Director by resolution passed at a general meeting or if she ceases to be a Director pursuant to any provision of the Articles of Association.

Mr Jackson-Smith has a letter of appointment with the Company dated 25 August 2015. Mr Jackson-Smith's appointment is for a period of three years from 25 August 2015 which can be extended for a further three years upon expiry. The appointment may be terminated at any time by either party giving to the other 12 months' prior written notice. If the Company gives notice it may, at its discretion, terminate the appointment with immediate effect by paying an amount in respect of the fee for the notice period. Mr Jackson-Smith's appointment as Non-Executive Director will terminate forthwith and without any compensation for loss of office if he is removed as a Director by resolution passed at a general meeting or if he ceases to be a Director pursuant to any provision of the Articles of Association.

|                      | Original appointment date | Renewed from                |
|----------------------|---------------------------|-----------------------------|
| Mr Laurie Turnbull   | 23 November 2006          | 1 December 2013 for 3 years |
| Mrs Pam Liversidge   | 3 July 2014               | Not applicable              |
| Mr Tim Jackson-Smith | 25 August 2015            | Not applicable              |

The policy on Non-Executive Directors' fees is

## Fees

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy                                           | To provide a competitive fee which will attract those high-calibre individuals with the relevant skills and experience necessary to contribute to a high performing board                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Operation                                                              | <p>The fees for Non-Executive Directors (including the Chairman) are reviewed every year, although not always changed.</p> <p>Fee levels are set by reference to the expected time commitments and responsibility and are periodically market tested to determine if fee levels are in line with those offered in companies of a comparable size, international reach and complexity for each role.</p> <p>The Chairman and Non-Executive Directors are paid an annual fee and do not participate in any of the Company's incentive arrangements or receive any pension provision (other than through a salary-sacrifice type arrangement).</p> <p>The Non-Executive Directors receive a basic fee, with additional fees payable for chairmanship of the Company's key committees.</p> <p>The Committee recommends the remuneration of the Chairman to the Board.</p> <p>The Chairman's fee is considered by the Remuneration Committee (during which the Chairman has no part in discussions) and the Non-Executive Director's fee is determined by the Board excluding the Non-Executive.</p> |
| Maximum opportunity                                                    | <p>Fees for the year ended 31 December 2016 are</p> <ul style="list-style-type: none"> <li>Chairman £75,000 of which the Chairman has elected to receive £39,000 directly to his personal pension plan</li> <li>Non-Executive Director base fee £30,000</li> <li>Chairman of the Audit Committee £5,000 (Mr Jackson-Smith)</li> <li>Chairman of the Remuneration Committee £5,000 (Mrs Liversidge)</li> </ul> <p>The above fee levels will be eligible for increases during the three-year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for non-executive directors in general and fee levels in companies of a similar size and complexity.</p>                                                                                                                                                                                                                                                                                                                                    |
| Framework used to assess performance and for the recovery of sums paid | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## ANNUAL REPORT ON REMUNERATION

This part of the Report has been prepared in accordance with Part 4 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6R of the Listing Rules. The Annual Remuneration Report will be put to an advisory shareholder vote at the 2016 Annual General Meeting. The information on pages 51 to 56 has been audited.

### Unaudited Information

#### The Remuneration Committee

The Committee currently comprises the following Non-Executive Directors of the Company: Mrs Pam Liversidge, Chairman of the Committee and Mr Tim Jackson-Smith. Both of the Committee members are considered by the Board to be independent.

Dr Sue Foden had been Chairman of the Committee, up until her resignation from the Board on 31 August 2015, and was replaced as Chairman by Mrs Pam Liversidge. Mr Tim Jackson-Smith replaced Mr Laurie Turnbull as a member of the Committee on 25 September 2015.

The Chief Executive may be invited to attend meetings of the Committee. The Committee keeps itself informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors. The Chief Executive also assists the Committee, except in relation to his own remuneration. The attendance of each Director at meetings during the year is shown on page 31.

The Committee continues to consider, in line with the Association of British Insurers' Guidelines on Responsible Investment Disclosures, whether the incentive policies for Executive Directors and senior managers raise any issues or risks by inadvertently motivating irresponsible behaviour (with liaison between the Audit and Remuneration Committees where appropriate).

The Committee's remit is set out in the terms of reference, a copy of which is available on request from the Company Secretary. In 2015, the Committee recommended to the Board the broad policy for the remuneration of the Chairman, the Executive Directors and other senior managers.

#### External advisors

The Committee has authority to obtain the advice of external parties and independent remuneration consultants. It is solely responsible for the appointment of remuneration consultants, their retention and termination and for approval of the basis of their fees and other terms. During the year, the Committee has not sought paid-for advice from any external advisors.

### Implementation of remuneration policy for the year ending 31 December 2015

#### Basic salary

The Executive Directors' base salaries were reviewed during the final quarter of the financial year ending 31 December 2015. The Committee took account of progression in the role as well as a consideration of each individual's developing responsibilities, performance, skills and experience. The Committee also considered the wider pay levels and salary increases being proposed across the Group as a whole and concluded that even though there has been significant change and growth across the Group, any change to remuneration should be mainly reflected in the long term incentive arrangements rather than salary and bonus. As a result, the Committee decided to increase the Executive Directors' salaries with effect from 1 January 2016 as set out below.

|                                          | Salary as at<br>1 January<br>2016<br>£'000 | Salary as at<br>1 January<br>2015<br>£'000 | % increase |
|------------------------------------------|--------------------------------------------|--------------------------------------------|------------|
| Dr Nick Ash, Chief Executive Officer     | 174,000                                    | 165,600                                    | 5%         |
| Dr Nick Leaves, Chief Operating Officer  | 141,600                                    | 134,700                                    | 5%         |
| Mr Tim Metcalfe, Group Finance Director* | 130,000                                    | 100,000                                    | 30%        |

\*The salary of Mr Metcalfe was initially increased to £120,000 with effect from 1 June 2015 following successful completion of his first nine months in office.

The increase awarded to the Executive Directors took due account of the performance-related salary increases awarded to Group employees and the Group's policy objective of offering base salaries that are in line with those offered by companies of a similar size, international reach and complexity.

# Directors' Report on Remuneration continued

## Pension and benefits

Executive Directors receive a car allowance, private medical insurance, permanent health insurance, death in service cover and a Company pension contribution of up to 12% of salary

## Annual Bonus Plan

In 2016, the Executive Directors will again be eligible to receive a performance-related bonus of up to 100% of salary with the metrics and opportunity composed as follows

| Metric   | Opportunity<br>(% salary) |
|----------|---------------------------|
| PBT*     | 50%                       |
| EBITDA** | 50%                       |

\* PBT is profit before tax adjusted for non-recurring items, share based payment costs and the amortisation of acquired intangible assets

\*\* EBITDA is profit after tax adjusted for taxation, finance costs, depreciation, amortisation, share based payment charge and non-recurring items

In line with the policy detailed in the Policy Report, the bonus targets operating for the year ending 31 December 2016 will be structured on a graduated scale around targeted levels of performance. In relation to the PBT element of a bonus (maximum of 50% of salary), the bonus payable at the threshold performance level is 12.5% of salary through to a maximum bonus being earned at up to 50% of salary in relation to delivering performance ahead of the Company's target. In relation to the EBITDA element of the bonus (maximum of 50% of salary), the bonus payable at the threshold performance level is 12.5% of salary through to a maximum bonus being earned at up to 50% of salary in relation to delivering performance ahead of the Company's target. Up to 50% of salary will be paid in cash. Any bonus in excess of 50% of salary will be granted as shares subject to a three year lock in period. As was the case with the bonuses for the year ended 31 December 2015, the Annual Bonus Plan for the year ended 31 December 2016 will also be subject to clawback provisions which will enable the Committee to recover the value overpaid to an Executive Director in respect of 2016 performance in the event of a material misstatement of the Company's financial results or misconduct that leads to such material misstatement or if an error is made in assessing the extent to which any target and/or any other condition imposed on the bonus was satisfied. The specific targets set are considered by the Committee to be commercially sensitive and will not be disclosed in advance of the 2016 report. Disclosure of the targets, along with performance against them and payments resulting, will be provided on a retrospective basis in next year's Annual Report on Remuneration. Bonuses for Executive Directors are subject to provisions allowing for payment, on a pro rata basis, to "good leavers" during the year as outlined above.

## 2015 Long-Term Incentive Plan

The Remuneration Committee made initial awards on 25 June 2015 to Executive Directors under the 2015 LTIP approved at the 2015 Annual General Meeting. These awards were at 300% of salary and were calculated based on the share price at the date of the Annual General Meeting and consisted of 3,821,538 to Dr Ash; 3,108,462 to Dr Leaves, and 2,769,231 to Mr Metcalfe. No subsequent awards can be made under the 2015 LTIP, under normal circumstances, until 2018.

The performance conditions are as follows

| Metric               | % of award |
|----------------------|------------|
| Earnings per share * | 30%        |
| Share price **       | 70%        |

\* Earnings per share is profit after tax adjusted for amortisation of acquired intangible assets and non-recurring items and is prepared on a fully diluted basis

\*\* Volume weighted adjusted share price

In line with the policy detailed in the Policy Report, vesting is structured on a graduated scale around targeted levels of performance. In relation to the earnings per share element, the threshold for vesting is 1.00 pence per share at which 25% of this element will vest. Vesting is then on a straight-line basis to 1.30 pence per share, at which point the maximum 100% of this element vests. Earnings per share is calculated with reference to the Company's consolidated financial statements for the year ended 31 December 2017 and is also subject to a free cash flow and return on capital employed underpin. In relation to the share price element, this element of the award will vest in full if the Company's share price is at least 20.00 pence per share at the end of the three year

performance period to be determined over the 30 day period following the preliminary announcement of the Company's financial results for the year ending 31 December 2017. There is straight-line vesting between 13.00 pence and 20.00 pence per share from nil at 13.00 pence to the maximum of 100% at 20.00 pence and above. The 2015 LTIP awards have a holding period of one year after vesting.

### Non-Executive Directors' remuneration

Non-Executive Directors are not eligible to participate in short or long-term incentive arrangements or to receive any Company pension contributions.

During the year under review, the remuneration of the Non-Executive Directors was reviewed by the Board (without the Non-Executive Directors participating in the review of their own remuneration). This was increased from £25,000 to £30,000 with effect from 1 September 2015. For the year ending 31 December 2016 the Chairman will continue to be paid a fee of £75,000, part taken as salary and part as pension contributions.

### Audited information

#### Table 1 Analysis of individual Directors' emoluments

##### Year ended 31 December 2015

|                                                                 | Fees & salary<br>£'000 | Taxable benefits <sup>1</sup><br>£'000 | Annual incentives                  |                                     | Pension <sup>4</sup><br>£'000 | Total<br>£'000 |
|-----------------------------------------------------------------|------------------------|----------------------------------------|------------------------------------|-------------------------------------|-------------------------------|----------------|
|                                                                 |                        |                                        | Annual bonus <sup>2</sup><br>£'000 | Share options <sup>3</sup><br>£'000 |                               |                |
| Executive Directors                                             |                        |                                        |                                    |                                     |                               |                |
| Dr Nick Ash                                                     | 166                    | 14                                     | 83                                 | 45                                  | 20                            | 328            |
| Dr Nick Leaves                                                  | 135                    | 15                                     | 67                                 | 45                                  | 16                            | 278            |
| Mr Tim Metcalfe                                                 | 112                    | 13                                     | 60                                 | —                                   | 13                            | 198            |
| Non-Executive Directors                                         |                        |                                        |                                    |                                     |                               |                |
| Mr Laurie Turnbull <sup>5</sup>                                 | 33                     | —                                      | —                                  | —                                   | 37                            | 70             |
| Mrs Pam Liversidge <sup>6</sup>                                 | 28                     | —                                      | —                                  | —                                   | —                             | 28             |
| Mr Tim Jackson-Smith <sup>7</sup><br>(appointed 25 August 2015) | 12                     | —                                      | —                                  | —                                   | —                             | 12             |
| Dr Sue Foden <sup>8</sup><br>(resigned 31 August 2015)          | 23                     | —                                      | —                                  | —                                   | —                             | 23             |

##### Year ended 31 December 2014

|                                                 |                        |                                        | Annual incentives                  |                                     |                               |                |
|-------------------------------------------------|------------------------|----------------------------------------|------------------------------------|-------------------------------------|-------------------------------|----------------|
|                                                 | Fees & salary<br>£'000 | Taxable benefits <sup>1</sup><br>£'000 | Annual bonus <sup>2</sup><br>£'000 | Share options <sup>3</sup><br>£'000 | Pension <sup>4</sup><br>£'000 | Total<br>£'000 |
| <b>Executive Directors</b>                      |                        |                                        |                                    |                                     |                               |                |
| Dr Nick Ash                                     | 160                    | 14                                     | 40                                 | —                                   | 19                            | 233            |
| Dr Nick Leaves                                  | 130                    | 15                                     | 32                                 | —                                   | 16                            | 196            |
| Mr Tim Metcalfe<br>(appointed 4 September 2014) | 33                     | 4                                      | 8                                  | —                                   | 3                             | 48             |
| Mr Rob Bakewell<br>(resigned 4 September 2014)  | 53                     | 4                                      | —                                  | —                                   | 4                             | 61             |
| <b>Non-Executive Directors</b>                  |                        |                                        |                                    |                                     |                               |                |
| Mr Laurie Turnbull                              | 45                     | —                                      | —                                  | —                                   | 30                            | 75             |
| Dr Sue Foden                                    | 30                     | —                                      | —                                  | —                                   | —                             | 30             |
| Mrs Pam Liversidge<br>(appointed 3 July 2014)   | 13                     | —                                      | —                                  | —                                   | —                             | 13             |

# Directors' Report on Remuneration continued

## <sup>1</sup> Taxable benefits

Taxable benefits are a car allowance, death in service insurance and health insurances for the Director and his spouse/children under age 21. In relation to the benefits detailed in the above table, the benefit which is considered to be significant in value terms is the provision of a car allowance, which is limited to an annual amount of £12,600 for the Executive Directors.

## <sup>2</sup> Annual bonus

The annual bonus is the only payment made to Directors which falls within paragraph 7(1)(c) of Part 3 of Schedule 8 to the 2008 Regulations.

The metrics used in the Annual Bonus Plan in the year under review were chosen to be aligned with the Group's stated objectives. This resulted in a combination of PBT and EBITDA targets being set. The sliding scales of targets set took due account of both internal planning and the external market's expectations for the Group's performance. The bonus earned against the targets set, and a summary of the targets and weightings applying to each measure, for 2015 is set out below.

| Metric   | Opportunity<br>(% of salary) | Payment<br>(% of salary) |
|----------|------------------------------|--------------------------|
| PBT*     | 50%                          | 37%                      |
| EBITDA** | 50%                          | 35%                      |
| Total    | 100%                         | 72%                      |

\* PBT is profit before tax adjusted for non-recurring items, share based payment costs and the amortisation of acquired intangible assets.

\*\* EBITDA is profit after tax adjusted for taxation, finance costs, depreciation, amortisation, share based payment costs and non-recurring items.

The "on-target" PBT performance was set at £3.5 million with a lower limit of £3.2 million and a maximum of £3.9 million. Below the lower limit, no PBT element of the bonus was to be paid. At the lower limit, a bonus of 12.5% of salary was payable. At PBT of £3.5 million (the mid-point), a PBT element of the bonus of 31.25% of salary was to be payable. A maximum PBT element of the bonus of 50% of salary was to be payable if the PBT was equal to or more than £3.9 million (the upper limit). Between the lower limit and mid-point and between the mid-point and the upper limit, the PBT bonus percentage was to increase on a straight-line basis. The level of PBT for the year determined to have been made for Annual Bonus Plan purposes was £3.6 million. In addition, the performance of the Executive Directors against each of their personal performance objectives is taken into account when determining the percentage of salary to be paid as an annual bonus.

The "on-target" EBITDA performance was set at £5.6 million with a lower limit of £5.1 million and a maximum of £6.2 million. Below the lower limit, no EBITDA element of the bonus was to be paid. At the lower limit, an EBITDA bonus of 12.5% of salary was payable. At an EBITDA of £5.6 million (the mid-point), an EBITDA element of the bonus of 31.25% of salary was to be payable. A maximum EBITDA element of the bonus of 50% of salary was to be payable if the EBITDA was equal to or more than £6.2 million (the upper limit). Between the lower limit and mid-point and between the mid-point and the upper limit, the EBITDA bonus percentage was to increase on a straight-line basis. The level of EBITDA for the year determined to have been made for Annual Bonus Plan purposes was £5.8 million. In addition, the performance of the Executive Directors against each of their personal development objectives is taken into account when determining the percentage of salary to be paid as an annual bonus.

In line with the Annual Bonus Plan policy, 50% of the bonus will be paid in cash and the numbers are included in the table above. The remaining 22% of the bonus is convertible into nil cost share options.

### <sup>3</sup> Share options

The amounts stated for 2015 comprise the value of the following share options awarded in 2013 that achieved the share price target during 2015 for subsequent vesting in full on the vesting date

| Target share price performance condition (pence) | Number of options |           |           |
|--------------------------------------------------|-------------------|-----------|-----------|
|                                                  | Dr Ash            | Dr Leaves | Total     |
| 14 00 (3 year vesting period)                    | 500,000           | 600,000   | 1,100,000 |
| 14 00 (4 year vesting period)                    | 500,000           | 400,000   | 900,000   |
|                                                  | 1,000,000         | 1,000,000 | 2,000,000 |

On 21 October 2013 the Executive Directors were awarded share options at an exercise price of 9 50 pence and a share price target of 14 00 pence. On 5 August 2015 the share price target of 14 00 pence was achieved for the 15 consecutive business days required thereby enabling these share options to vest in full on the vesting dates of 21 October 2016 and 21 October 2017 respectively. The share options value for each Director has been calculated as the number of share options achieving the target share price of 14 00 pence multiplied by the target share price of 14 00 pence less the option price of 9 50 pence.

For those awarded in 2015, the performance criteria has not been met and no amount has been calculated in respect of these awards.

There was no amount stated for 2014 as no incentives were awarded and for those awarded in prior years, none of the share price targets required for subsequent vesting were achieved.

### <sup>4</sup> Pensions

In addition to their salaries, the Executive Directors are entitled to pension contributions of up to 12% of salary.

### <sup>5</sup> Mr Turnbull

Mr Turnbull received a proportion of the fee for his role as Chairman of the Audit Committee which is included in the table. Mr Turnbull waived £5,000 of remuneration in the year.

### <sup>6</sup> Mrs Liversidge

Mrs Liversidge became Chairman of the Remuneration Committee on 25 September 2015 and therefore received a proportion of the £5,000 annual fee for this role which is included in the table.

### <sup>7</sup> Mr Jackson-Smith

Mr Jackson-Smith was appointed as a Director on 25 August 2015 and the information in this Report for 2015 relates only to the period from the date of appointment until 31 December. He became Chairman of the Audit Committee on 25 September 2015 and therefore received a proportion of the £5,000 annual fee for this role which is included in the table.

### <sup>8</sup> Dr Foden

Dr Foden resigned as a Director on 31 August 2015 and the information in this Report for 2015 relates only to the period from 1 January 2015 to the date of resignation. Up to the date of resignation she received a proportion of the fee of £5,000 for her role as Chairman of the Remuneration Committee, which is included in the table.

# Directors' Report on Remuneration continued

**Table 2 Share options**

The Directors who held office during the year held options under the Group's share option schemes as follows

| Director and date of grant | Note  | First exercisable date | Last exercisable date | Option price | 1 January 2015 | Lapsed in year | Granted in year | Exercised in year | 31 December 2015 |
|----------------------------|-------|------------------------|-----------------------|--------------|----------------|----------------|-----------------|-------------------|------------------|
| <b>Executive Directors</b> |       |                        |                       |              |                |                |                 |                   |                  |
| <b>Dr Nick Ash</b>         |       |                        |                       |              |                |                |                 |                   |                  |
| 14 Mar 2006                | 2     | 14 Mar 2009            | 13 Mar 2016           | 9 00p        | 100,000        | —              | —               | (100,000)         | —                |
| 4 Sep 2006                 | 2     | 4 Sep 2009             | 3 Sep 2016            | 6 63p        | 316,742        | —              | —               | (316,742)         | —                |
| 4 Sep 2006                 | 1     | 4 Sep 2009             | 3 Sep 2016            | 6 63p        | 683,258        | —              | —               | (683,258)         | —                |
| 8 Jun 2007                 | 1     | 8 Jun 2010             | 7 Jun 2017            | 7 25p        | 500,000        | —              | —               | (500,000)         | —                |
| 3 Jul 2007                 | 1     | 3 Jul 2010             | 2 Jul 2017            | 7 75p        | 1,000,000      | —              | —               | (1,000,000)       | —                |
| 31 Mar 2008                | 1     | 31 Mar 2011            | 30 Mar 2018           | 7 88p        | 500,000        | —              | —               | —                 | 500,000          |
| 31 Mar 2009                | 1     | 31 Mar 2012            | 30 Mar 2019           | 4 63p        | 400,000        | —              | —               | —                 | 400,000          |
| 26 Apr 2010                | 1     | 26 Apr 2013            | 25 Apr 2020           | 8 25p        | 400,000        | —              | —               | —                 | 400,000          |
| 27 Sep 2013                | 1     | 27 Sep 2016            | 26 Sep 2023           | 9 38p        | 600,000        | —              | —               | —                 | 600,000          |
| 21 Oct 2013                | 1     | 21 Oct 2016            | 20 Oct 2023           | 9 50p        | 1,500,000      | —              | —               | —                 | 1,500,000        |
| 21 Oct 2013                | 1 & 3 | 21 Oct 2016            | 20 Oct 2023           | 9 50p        | 1,500,000      | —              | —               | —                 | 1,500,000        |
| 21 Oct 2013                | 1 & 4 | 21 Oct 2017            | 20 Oct 2024           | 9 50p        | 500,000        | —              | —               | —                 | 500,000          |
| 25 Jun 2015                | 5     | 15 Mar 2019            | 25 Jun 2025           | 0 001p       | —              | —              | 3,821,538       | —                 | 3,821,538        |
|                            |       |                        |                       |              | 8,000,000      | —              | 3,821,538       | (2,600,000)       | 9,221,538        |
| <b>Dr Nick Leaves</b>      |       |                        |                       |              |                |                |                 |                   |                  |
| 3 Jul 2007                 | 2     | 3 Jul 2010             | 2 Jul 2017            | 7 75p        | 387,097        | —              | —               | (387,097)         | —                |
| 3 Jul 2007                 | 1     | 3 Jul 2010             | 2 Jul 2017            | 7 75p        | 112,903        | —              | —               | (112,903)         | —                |
| 31 Mar 2008                | 1     | 31 Mar 2011            | 30 Mar 2018           | 7 88p        | 200,000        | —              | —               | —                 | 200,000          |
| 31 Mar 2009                | 1     | 31 Mar 2012            | 30 Mar 2019           | 4 63p        | 300,000        | —              | —               | —                 | 300,000          |
| 26 Apr 2010                | 1     | 26 Apr 2013            | 25 Apr 2020           | 8 25p        | 300,000        | —              | —               | —                 | 300,000          |
| 24 Apr 2011                | 1     | 24 Mar 2014            | 23 Mar 2021           | 6 25p        | 300,000        | —              | —               | —                 | 300,000          |
| 27 Sep 2013                | 1     | 27 Sep 2016            | 26 Sep 2023           | 9 38p        | 400,000        | —              | —               | —                 | 400,000          |
| 21 Oct 2013                | 1     | 21 Oct 2016            | 20 Oct 2023           | 9 50p        | 1,000,000      | —              | —               | —                 | 1,000,000        |
| 21 Oct 2013                | 1 & 3 | 21 Oct 2016            | 20 Oct 2023           | 9 50p        | 1,600,000      | —              | —               | —                 | 1,600,000        |
| 21 Oct 2013                | 1 & 4 | 21 Oct 2017            | 20 Oct 2024           | 9 50p        | 400,000        | —              | —               | —                 | 400,000          |
| 25 Jun 2015                | 5     | 15 Mar 2019            | 25 Jun 2025           | 0 001p       | —              | —              | 3,108,462       | —                 | 3,108,462        |
|                            |       |                        |                       |              | 5,000,000      | —              | 3,108,462       | (500,000)         | 7,608,462        |
| <b>Mr Tim Metcalfe</b>     |       |                        |                       |              |                |                |                 |                   |                  |
| 25 Jun 2015                | 5     | 15 Mar 2019            | 25 Jun 2025           | 0 001p       | —              | —              | 2,769,231       | —                 | 2,769,231        |

| Director and date of grant    | Note | First exercisable date | Last exercisable date | Option price | 1 January 2015 | Lapsed in year | Granted in year | Exercised in year | 31 December 2015 |
|-------------------------------|------|------------------------|-----------------------|--------------|----------------|----------------|-----------------|-------------------|------------------|
| <b>Non-Executive Director</b> |      |                        |                       |              |                |                |                 |                   |                  |
| <b>Mr Laurie Turnbull</b>     |      |                        |                       |              |                |                |                 |                   |                  |
| 8 Jun 2007                    | 1    | 8 Jun 2010             | 7 Jun 2017            | 7 25p        | 1,750,000      | —              | —               | (1,750,000)       | —                |
| 3 Jul 2007                    | 1    | 3 Jul 2010             | 2 Jul 2017            | 7.75p        | 2,000,000      | —              | —               | (2,000,000)       | —                |
| 31 Mar 2008                   | 1    | 31 Mar 2011            | 30 Mar 2018           | 7 88p        | 500,000        | —              | —               | —                 | 500,000          |
| 26 Apr 2010                   | 1    | 26 Apr 2013            | 25 Apr 2020           | 8 25p        | 400,000        | —              | —               | —                 | 400,000          |
|                               |      |                        |                       |              | 4,650,000      | —              | —               | (3,750,000)       | 900,000          |

Note 1 granted under the 1999 unapproved share option scheme

Note 2 granted under the 2001 approved share option scheme

Note 3 subject to performance criteria related to share price which have been met vesting period 3 years

Note 4 subject to performance criteria related to share price which have been met, vesting period 4 years

Note 5 granted under the 2015 LTIP, subject to performance criteria related to earnings per share and share price, vesting period 2.75 years

No share options lapsed during the year

The options exercised in the year were net settled with new shares issued. These were subsequently sold and the following gains arose in the year: Dr Nick Ash £240,000, Dr Nick Leaves £44,000 and Mr Laurie Turnbull £337,000

The following share options were granted in the year

|                 | Granted in the year (number) | Option price | Face value £'000 <sup>1</sup> | Face value net of exercise price £'000 <sup>2</sup> |
|-----------------|------------------------------|--------------|-------------------------------|-----------------------------------------------------|
| Dr Nick Ash     | 3,821,538                    | 0.001p       | 497                           | 497                                                 |
| Dr Nick Leaves  | 3,108,462                    | 0.001p       | 404                           | 404                                                 |
| Mr Tim Metcalfe | 2,769,231                    | 0.001p       | 360                           | 360                                                 |

Note 1 Face value is the share price at the date of grant multiplied by the maximum number of shares assuming that all performance conditions are met

Note 2 Face value net of exercise price is the share price at the date of grant less the exercise price, multiplied by the maximum number of shares assuming that all performance conditions are met

# Directors' Report on Remuneration continued

**Table 3 Directors' interests in shares**

The interests (including the interests of their immediate families and persons connected with the Directors) of the Directors who held office during the year in the ordinary shares of the Company at 26 April 2016, 31 December 2015 and 1 January 2015 were:

|                                                    |                                        |                                                | Unvested awards                                     |                                                 | Vested awards                      |
|----------------------------------------------------|----------------------------------------|------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|------------------------------------|
|                                                    | Beneficially owned at 31 December 2015 | Changes from 31 December 2015 to 26 April 2016 | Share options not subject to performance conditions | Share options subject to performance conditions | Vested share options not exercised |
| Executive Directors                                |                                        |                                                |                                                     |                                                 |                                    |
| Dr Nick Ash                                        | 500,000                                | —                                              | 2,100,000                                           | 5,821,538                                       | 1,300,000                          |
| Dr Nick Leaves                                     | 1,028,557                              | —                                              | 1,400,000                                           | 5,108,462                                       | 1,100,000                          |
| Mr Tim Metcalfe                                    | —                                      | —                                              | —                                                   | 2,769,231                                       | —                                  |
| Non-Executive Directors                            |                                        |                                                |                                                     |                                                 |                                    |
| Mr Laurie Turnbull                                 | 2,750,000                              | —                                              | —                                                   | —                                               | 900,000                            |
| Mrs Pam Liversidge                                 | —                                      | —                                              | —                                                   | —                                               | —                                  |
| Mr Tim Jackson-Smith<br>(appointed 25 August 2015) | —                                      | —                                              | —                                                   | —                                               | —                                  |
| Dr Sue Foden<br>(resigned 31 August 2015)          | —                                      | —                                              | —                                                   | —                                               | —                                  |

|                                |                                                 | Unvested awards                                              |                                                          | Vested awards                            |
|--------------------------------|-------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
|                                | Beneficially<br>owned at<br>31 December<br>2014 | Share options<br>not subject to<br>performance<br>conditions | Share options<br>subject to<br>performance<br>conditions | Vested share<br>options not<br>exercised |
| <b>Executive Directors</b>     |                                                 |                                                              |                                                          |                                          |
| Dr Nick Ash                    | 500,000                                         | 2,100,000                                                    | 2,000,000                                                | 3,900,000                                |
| Dr Nick Leaves                 | 1,028,557                                       | 1,400,000                                                    | 2,000,000                                                | 1,600,000                                |
| Mr Tim Metcalfe                | —                                               | —                                                            | —                                                        | —                                        |
| <b>Non-Executive Directors</b> |                                                 |                                                              |                                                          |                                          |
| Mr Laurie Turnbull             | 4,750,000                                       | —                                                            | —                                                        | 4,650,000                                |
| Mrs Pam Liversidge             | —                                               | —                                                            | —                                                        | —                                        |
| Dr Sue Foden                   | 244,340                                         | —                                                            | —                                                        | —                                        |

The Executive Directors are expected to retain a proportion of the after-tax number of vested share options awarded following exercise, until they hold shares of a value equivalent to 100% of their basic salary (applicable to share option awards granted from 21 October 2013 onwards). As of 18 April 2016 (the latest practical date prior to the completion of this report), the values of the holdings of shares (excluding share options that have vested) held by the Executive Directors were as follows:

| Director        | Number of shares held | Value of holding £'000 | % of base salary |
|-----------------|-----------------------|------------------------|------------------|
| Dr Nick Ash     | 500,000               | 73                     | 42%              |
| Dr Nick Leaves  | 1,028,557             | 150                    | 106%             |
| Mr Tim Metcalfe | —                     | —                      | —                |

During the period 1 January 2016 to 26 April 2016 no changes in Directors' interests have been notified to the Company.

No Director held any beneficial interest in or options over shares in or debentures of any other Group company at 31 December 2015 or at 26 April 2016 save as set out above.

## Unaudited Information

### Performance graph

The following graph shows the Company's share price performance, compared with the share price performance of the FTSE 350 Pharmaceuticals & Biotechnology Index also measured by total shareholder return. The Directors are of the opinion that the FTSE 350 Pharmaceuticals & Biotechnology Index provides an appropriate comparative based on the Group's operations.

# Directors' Report on Remuneration continued

## Remuneration of the Chief Executive Officer

The table below shows the total remuneration for the Chief Executive Officer during each of the past five financial years.

The total remuneration includes the annual bonus and share option awards for those years. The annual bonus and share option award percentages show the value awarded for each year as a percentage of the maximum available.

|                                    | 2015 | 2014 | 2013 | 2012 | 2011 |
|------------------------------------|------|------|------|------|------|
| Total remuneration (£'000)         | 328  | 233  | 238  | 200  | 154  |
| Annual bonus %                     | 72%  | 50%  | 45%  | 35%  | 0%   |
| Share option awards % <sup>1</sup> | 20%  | 0%   | 7%   | 0%   | 0%   |

### <sup>1</sup> Share Option Awards

The share option awards are included in relation to any financial year on the same basis as those set out in Table 1 on page 51.

## Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual cash bonus for the Chief Executive Officer between the current and previous financial year compared with that for the average Group employee. The Committee has chosen this comparator as it feels that it provides the most appropriate reflection of the earnings of the average employee than the movement in the Group's total salary cost, which is distorted by movements in the number of employees resulting from acquisitions made during the year and the continued growth and expansion of the Group. For the benefits and bonus per employee, this is based on those employees eligible to participate in such schemes.

|                         | Salary | Benefits | Bonus |
|-------------------------|--------|----------|-------|
| Chief Executive Officer | 4%     | 2%       | 108%  |
| Group employees average | 3%     | 2%       | 111%  |

## Relative importance of the spend on pay

The table below shows the movement in spend on staff costs versus that in dividends, investing activities and finance costs.

|                      | 2015<br>£'000 | 2014<br>£'000 | % change |
|----------------------|---------------|---------------|----------|
| Staff costs          | 7,527         | 6,791         | 11%      |
| Dividends            | —             | —             | —        |
| Investing activities | 7,987         | 1,583         | 405%     |
| Finance costs        | 362           | 403           | -10%     |

The comparison of staff costs with dividends is a requirement of the 2013 Regulations. To date, the Company has neither declared nor paid a dividend.

The Board has a clearly stated strategy of organic and acquisitive growth for the business. The ongoing growth and expansion of the Group is reflected in the investment made in acquisitions and capital expenditure and the financing costs associated with this ongoing investment.

The Committee has determined that it is relevant and appropriate to show the movement in spend in staff costs versus the investment being made in the continued growth of the business.

### External Directorships

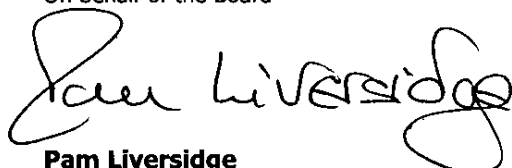
During the year under review the Executive Directors did not hold any external non-executive roles

### Statement of shareholder voting

At last year's Annual General Meeting the Directors' Report on Remuneration received the following votes from shareholders

|                      | 2015 AGM           | %       |
|----------------------|--------------------|---------|
| Votes cast in favour | <b>169,446,760</b> | > 99.9% |
| Votes cast against   | <b>31,288</b>      | < 0.1%  |
| Total votes cast     | <b>169,202,420</b> | 100%    |
| Abstentions          | <b>40,833</b>      |         |

On behalf of the Board



**Pam Liversidge**

Chairman of the Remuneration Committee

26 April 2016

# Statements of Directors' Responsibilities

## In respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. The parent company of the Group is Source BioScience plc ('the Company').

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRS as adopted by the EU and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Report on Remuneration and Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Required under the Disclosure and Transparency Rules

The Directors confirm, to the best of their knowledge, that

- these financial statements, prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and the undertakings included in the consolidation as a whole and
- the Strategic Report, which comprises the Chairman's Statement and the Business Review, includes a fair review of the development and performance of the business and of the position of the parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by



**Laurie Turnbull**

Chairman

26 April 2016



**Dr Nick Ash**

Chief Executive Officer

26 April 2016

# Independent Auditor's Report

to the members of Source BioScience plc

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Source BioScience plc for the year ended 31 December 2015 set out on pages 64 to 100. 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 2015 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU),
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows

Impairment of goodwill (goodwill net book value £22.9 million), risk unchanged from 2014

Refer to page 34 (Audit Committee Report), page 69 (accounting policy) and pages 80 to 81 (financial disclosures)

- The risk – The Group has recognised a significant amount of goodwill arising from acquisitions many of which were made at significant premiums to the net identifiable assets of the acquired entities. The carrying value of goodwill at 31 December 2015 represents 72% of the Group's net assets. The lowest headroom in the assessment of impairment exists for the Products cash generating unit ("CGU"), which accounts for £7.6 million of the total net book value of goodwill at 31 December 2015. As such there is increased risk that this goodwill is misstated as a result of estimation uncertainty in forecasting and discounting future cash flows. The assumptions and estimates used in the forecasts and the calculation of a discount rate are therefore key judgemental areas that our audit is concentrated on.
- Our response – Our audit procedures included considering the Group's budgets, which form the basis of the longer term forecasts, in the light of historical performance. We challenged the key assumptions in the budget of revenue growth and gross margin percentage with reference to historical trends, and our own expectations based on our knowledge of the business. We used our own valuation specialist to assist us in assessing the applicable discount rates. For the Products CGU in particular, we applied sensitivities to key inputs, focusing on the discount rate, revenue growth and gross margin percentage forecasts as we considered the recoverable amount to be most sensitive to these inputs. We compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of the aggregate discounted cash flow. We also considered whether the Group's disclosures in respect of the impairment review and the sensitivity of the outcome of the impairment review to changes in key assumptions are appropriate.

Acquisition of Select Pharma Laboratories Ltd (total fair value to the Group recognised on acquisition, £8.6 million), non-recurring event driven risk

Refer to page 34 (Audit Committee Report), page 69 (accounting policy) and page 76 (financial disclosures)

- The risk – During the year the Group acquired Select Pharma Laboratories Ltd for a total consideration of £8.6 million. The allocation of this amount to the fair value of the identifiable assets and liabilities acquired and, in particular, the identification and valuation of significant previously unrecognised customer relationship intangible assets requires significant judgement. Furthermore, significant adjustments were required to the amounts as stated in the acquired entity's books to re-state identified assets and liabilities at fair value. These adjustments related principally to impairment of trade receivables and recognition of previously unidentified liabilities. This is therefore a key area that our audit is concentrated on.
- Our response – Our audit procedures included challenging the methodologies and key assumptions used by the Group to determine the fair values of identified customer relationship intangible assets. We used our own valuation specialist to assist us in this evaluation. The Group adopted a multi period excess earnings model of valuation and we considered the key assumptions within this of customer attrition rate, forecast revenue growth and discount rate. We agreed the adjustments proposed by the Group to state trade receivables and previously unidentified liabilities at fair value to detailed workings. We compared the Group's

# Independent Auditor's Report continued

## to the members of Source BioScience plc

assessment of impairment of trade receivables to subsequent cash receipts and inspected relevant correspondence with customers. We assessed the completeness and measurement of previously unidentified liabilities through a detailed review of source documentation from the acquired entity. We also considered the adequacy of the disclosure of the acquisition in the Group financial statements.

### Revenue recognition

We continue to perform audit procedures over revenue recognition, with particular focus on the Group's pre-paid vouchers for its DNA sequencing service. For these the Group needs to assess the likelihood of non-redemption. However, as this voucher programme has now been in place for several years we have observed that the rate of redemption has become less volatile and that management has a longer history of redemption data. Furthermore, as the Group continues to diversify its service offering through acquisitions and organic development this revenue stream now accounts for a smaller percentage of total Group revenue. Therefore, we consider the risk of misstatement due to the Group's estimate of future levels of redemption to be reduced. As such we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

### **3. 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 £250,000, determined with reference to a benchmark of Group revenue (of which it represents 0.9%). Revenue is considered to be the appropriate benchmark as the Group continues to make and integrate acquisitions, incurring significant one off costs, and therefore its profit before tax remains volatile. Furthermore revenue is a key performance indicator for the Group.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £12,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's ten reporting components, we subjected seven to audits for Group reporting purposes. These audits covered 94% of Group revenue, 90% of Group profit before tax and 96% of Group total assets.

The remaining 6% of total Group revenue, 10% of Group profit before tax and 4% of total Group assets is represented by 3 reporting components. For these remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team conducted all audit work over the 7 components subjected to audit. These audits were performed to materiality set by the Group audit team which ranged from £10,000 to £225,000, having regard to the mix of size and risk profile of the Group across the components.

### **4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statement, and
- information given in the Audit Committee Report set out on page 36 with respect to internal control and risk management systems in relation to financial reporting processes and in the Directors' Report on page 27 about share capital structures is consistent with the financial statements.

### **5. We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to

- the Directors' Viability Statement on page 22, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2018, or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting

## 6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading

In particular, we are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made,
- a Corporate Governance Statement has not been prepared by the Company, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the Directors' statements, set out on page 22, in relation to going concern and longer-term viability, and
- the part of the Corporate Governance Statement on pages 30 to 32 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities

### Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 60, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions



**Anthony Hambleton** (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St Nicholas House

Park Row

Nottingham NG1 6FQ

26 April 2016

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

|                                                                                 | Note | Year ended<br>31 December<br>2015<br>£'000 | Year ended<br>31 December<br>2014<br>£'000 |
|---------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------|
| Revenue                                                                         | 2    | 26,302                                     | 25,175                                     |
| Cost of sales                                                                   |      | (13,027)                                   | (12,931)                                   |
| <b>Gross profit</b>                                                             |      | <b>13,275</b>                              | <b>12,244</b>                              |
| Selling and distribution expenses                                               |      | (2,323)                                    | (2,391)                                    |
| Research and development                                                        |      | (170)                                      | (158)                                      |
| Administrative expenses                                                         |      |                                            |                                            |
| — normal                                                                        |      | (6,791)                                    | (6,365)                                    |
| — share based payments                                                          |      | (366)                                      | (90)                                       |
| — amortisation of intangibles arising from acquisitions                         |      | (636)                                      | (614)                                      |
| — non-recurring costs and acquisition costs                                     | 4    | (644)                                      | (808)                                      |
| Administrative expenses                                                         |      | (8,437)                                    | (7,877)                                    |
| <b>Operating profit</b>                                                         | 2    | <b>2,345</b>                               | <b>1,818</b>                               |
| Finance income                                                                  | 5    | 2                                          | 8                                          |
| Finance costs                                                                   | 5    | (364)                                      | (411)                                      |
| <b>Profit on ordinary activities before tax</b>                                 | 7    | <b>1,983</b>                               | <b>1,415</b>                               |
| Taxation                                                                        | 8    | (514)                                      | (481)                                      |
| <b>Profit attributable to equity holders of the Company</b>                     |      | <b>1,469</b>                               | <b>934</b>                                 |
| <b>Other comprehensive (expense)/income</b>                                     |      |                                            |                                            |
| Items that are, or may subsequently be, recycled to profit or loss              |      |                                            |                                            |
| — exchange differences on translation of foreign operations                     |      | (22)                                       | 38                                         |
| <b>Total comprehensive income attributable to equity holders of the Company</b> |      | <b>1,447</b>                               | <b>972</b>                                 |
| <b>Earnings per share:</b>                                                      |      |                                            |                                            |
| Basic profit per ordinary share                                                 | 6    | 0.45p                                      | 0.30p                                      |
| Diluted profit per ordinary share                                               | 6    | 0.44p                                      | 0.29p                                      |

# Statements of Changes in Shareholders' Equity

For the year ended 31 December 2015

| Group                                                 | Attributable to equity holders of the parent company |                        |                                    |                          |                              |                                  | Total equity<br>£'000 |
|-------------------------------------------------------|------------------------------------------------------|------------------------|------------------------------------|--------------------------|------------------------------|----------------------------------|-----------------------|
|                                                       | Share capital<br>£'000                               | Share premium<br>£'000 | Merger and other reserves<br>£'000 | Special reserve<br>£'000 | Translation reserve<br>£'000 | Profit and loss reserve<br>£'000 |                       |
| Balance at 1 January 2014                             | 6,265                                                | 7,768                  | 2,408                              | 10,788                   | (2)                          | (2,825)                          | 24,402                |
| Currency translation adjustments                      | —                                                    | —                      | —                                  | —                        | 38                           | —                                | 38                    |
| Profit for the year                                   | —                                                    | —                      | —                                  | —                        | —                            | 934                              | 934                   |
| Total comprehensive income for the year               | —                                                    | —                      | —                                  | —                        | 38                           | 934                              | 972                   |
| Transactions with owners, recorded directly in equity |                                                      |                        |                                    |                          |                              |                                  |                       |
| Employee share option scheme                          |                                                      |                        |                                    |                          |                              |                                  |                       |
| — value of services provided                          | —                                                    | —                      | —                                  | —                        | —                            | 90                               | 90                    |
| — taxation in respect of share based payments         | —                                                    | —                      | —                                  | —                        | —                            | (37)                             | (37)                  |
| — proceeds from shares issued                         | 6                                                    | 16                     | —                                  | —                        | —                            | —                                | 22                    |
| Reclassification of special reserve                   | —                                                    | —                      | —                                  | (10,788)                 | —                            | 10,788                           | —                     |
| Balance at 31 December 2014                           | 6,271                                                | 7,784                  | 2,408                              | —                        | 36                           | 8,950                            | 25,449                |
| Balance at 1 January 2015                             | 6,271                                                | 7,784                  | 2,408                              | —                        | 36                           | 8,950                            | 25,449                |
| Currency translation adjustments                      | —                                                    | —                      | —                                  | —                        | (22)                         | —                                | (22)                  |
| Profit for the year                                   | —                                                    | —                      | —                                  | —                        | —                            | 1,469                            | 1,469                 |
| Total comprehensive (expense)/income for the year     | —                                                    | —                      | —                                  | —                        | (22)                         | 1,469                            | 1,447                 |
| Transactions with owners, recorded directly in equity |                                                      |                        |                                    |                          |                              |                                  |                       |
| Employee share option scheme                          |                                                      |                        |                                    |                          |                              |                                  |                       |
| — value of services provided                          | —                                                    | —                      | —                                  | —                        | —                            | 366                              | 366                   |
| — taxation in respect of share based payments         | —                                                    | —                      | —                                  | —                        | —                            | 136                              | 136                   |
| — proceeds from shares issued                         | 88                                                   | (75)                   | —                                  | —                        | —                            | —                                | 13                    |
| Proceeds from shares issued                           | 627                                                  | 3,766                  | —                                  | —                        | —                            | —                                | 4,393                 |
| <b>Balance at 31 December 2015</b>                    | <b>6,986</b>                                         | <b>11,475</b>          | <b>2,408</b>                       | <b>—</b>                 | <b>14</b>                    | <b>10,921</b>                    | <b>31,804</b>         |

| Company                                               | Attributable to equity holders of the Company |                        |                                    |                          |                                  |  | Total equity<br>£'000 |
|-------------------------------------------------------|-----------------------------------------------|------------------------|------------------------------------|--------------------------|----------------------------------|--|-----------------------|
|                                                       | Share capital<br>£'000                        | Share premium<br>£'000 | Merger and other reserves<br>£'000 | Special reserve<br>£'000 | Profit and loss reserve<br>£'000 |  |                       |
| Balance at 1 January 2014                             | 6,265                                         | 7,768                  | 2,408                              | 10,788                   | 799                              |  | 28,028                |
| Profit for the year                                   | —                                             | —                      | —                                  | —                        | 808                              |  | 808                   |
| Total comprehensive income for the year               | —                                             | —                      | —                                  | —                        | 808                              |  | 808                   |
| Transactions with owners, recorded directly in equity |                                               |                        |                                    |                          |                                  |  |                       |
| Employee share option scheme                          |                                               |                        |                                    |                          |                                  |  |                       |
| — value of services provided                          | —                                             | —                      | —                                  | —                        | 90                               |  | 90                    |
| — taxation in respect of share based payments         | —                                             | —                      | —                                  | —                        | (28)                             |  | (28)                  |
| — proceeds from shares issued                         | 6                                             | 16                     | —                                  | —                        | —                                |  | 22                    |
| Reclassification of special reserve                   | —                                             | —                      | —                                  | (10,788)                 | 10,788                           |  | —                     |
| Balance at 31 December 2014                           | 6,271                                         | 7,784                  | 2,408                              | —                        | 12,457                           |  | 28,920                |
| Balance at 1 January 2015                             | 6,271                                         | 7,784                  | 2,408                              | —                        | 12,457                           |  | 28,920                |
| Profit for the year                                   | —                                             | —                      | —                                  | —                        | 474                              |  | 474                   |
| Total comprehensive income for the year               | —                                             | —                      | —                                  | —                        | 474                              |  | 474                   |
| Transactions with owners, recorded directly in equity |                                               |                        |                                    |                          |                                  |  |                       |
| Employee share option scheme                          |                                               |                        |                                    |                          |                                  |  |                       |
| — value of services provided                          | —                                             | —                      | —                                  | —                        | 366                              |  | 366                   |
| — taxation in respect of share based payments         | —                                             | —                      | —                                  | —                        | 101                              |  | 101                   |
| — proceeds from shares issued                         | 88                                            | (75)                   | —                                  | —                        | —                                |  | 13                    |
| Proceeds from shares issued                           | 627                                           | 3,766                  | —                                  | —                        | —                                |  | 4,393                 |
| <b>Balance at 31 December 2015</b>                    | <b>6,986</b>                                  | <b>11,475</b>          | <b>2,408</b>                       | <b>—</b>                 | <b>13,398</b>                    |  | <b>34,267</b>         |

# Statements of Financial Position

As at 31 December 2015

|                                              |       | Group                                 |                                       | Company                               |                                       |
|----------------------------------------------|-------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                                              |       | As at<br>31 December<br>2015<br>£'000 | As at<br>31 December<br>2014<br>£'000 | As at<br>31 December<br>2015<br>£'000 | As at<br>31 December<br>2014<br>£'000 |
|                                              | Note  |                                       |                                       |                                       |                                       |
| <b>Non-current assets</b>                    |       |                                       |                                       |                                       |                                       |
| Goodwill                                     | 9     | 22,864                                | 15,996                                | —                                     | —                                     |
| Other intangible assets                      | 10,11 | 2,979                                 | 2,118                                 | —                                     | —                                     |
| Property, plant and equipment                | 12    | 10,622                                | 10,419                                | —                                     | —                                     |
| Investments in subsidiary undertakings       | 13    | —                                     | —                                     | 40,029                                | 31,280                                |
| Deferred tax                                 | 20    | 625                                   | 1,054                                 | 368                                   | 478                                   |
|                                              |       | 37,090                                | 29,587                                | 40,397                                | 31,758                                |
| <b>Current assets</b>                        |       |                                       |                                       |                                       |                                       |
| Inventories                                  | 14    | 1,369                                 | 1,149                                 | —                                     | —                                     |
| Trade and other receivables                  | 15    | 5,524                                 | 4,829                                 | 4,053                                 | 4,428                                 |
| Cash and cash equivalents                    | 16    | 4,427                                 | 2,603                                 | —                                     | —                                     |
|                                              |       | 11,320                                | 8,581                                 | 4,053                                 | 4,428                                 |
| <b>Current liabilities</b>                   |       |                                       |                                       |                                       |                                       |
| Bank overdraft                               | 16    | —                                     | —                                     | 519                                   | 176                                   |
| Trade and other payables                     | 17    | 7,200                                 | 5,271                                 | 826                                   | 310                                   |
| Corporation tax                              |       | 30                                    | 10                                    | —                                     | —                                     |
| Financial liabilities                        |       |                                       |                                       |                                       |                                       |
| — borrowings                                 | 18    | 2,075                                 | 2,199                                 | 2,075                                 | 2,081                                 |
| Deferred and contingent consideration        | 19    | 103                                   | —                                     | 103                                   | —                                     |
|                                              |       | 9,408                                 | 7,480                                 | 3,523                                 | 2,567                                 |
| <b>Net current assets</b>                    |       | 1,912                                 | 1,101                                 | 530                                   | 1,861                                 |
| <b>Total assets less current liabilities</b> |       | 39,002                                | 30,688                                | 40,927                                | 33,619                                |
| <b>Non-current liabilities</b>               |       |                                       |                                       |                                       |                                       |
| Deferred income                              | 17    | 538                                   | 540                                   | —                                     | —                                     |
| Financial liabilities                        |       |                                       |                                       |                                       |                                       |
| — borrowings                                 | 18    | 6,060                                 | 4,679                                 | 6,060                                 | 4,679                                 |
| — derivative financial instruments           | 18    | —                                     | 20                                    | —                                     | 20                                    |
| Deferred and contingent consideration        | 19    | 600                                   | —                                     | 600                                   | —                                     |
|                                              |       | 7,198                                 | 5,239                                 | 6,660                                 | 4,699                                 |
| <b>Net assets</b>                            |       | 31,804                                | 25,449                                | 34,267                                | 28,920                                |
| <b>Equity</b>                                |       |                                       |                                       |                                       |                                       |
| Issued share capital                         | 21    | 6,986                                 | 6,271                                 | 6,986                                 | 6,271                                 |
| Share premium                                | 23    | 11,475                                | 7,784                                 | 11,475                                | 7,784                                 |
| Special reserve                              | 24    | —                                     | —                                     | —                                     | —                                     |
| Other reserves                               | 24    | 2,422                                 | 2,444                                 | 2,408                                 | 2,408                                 |
| Profit and loss reserve                      | 25    | 10,921                                | 8,950                                 | 13,398                                | 12,457                                |
| <b>Total equity</b>                          |       | 31,804                                | 25,449                                | 34,267                                | 28,920                                |

The financial statements on pages 64 to 100 were approved by the Board on 26 April 2016 and signed on its behalf by

**Laurie Turnbull**

Chairman

26 April 2016

**Dr Nick Ash**

Chief Executive Officer

26 April 2016

Company registration number 79136

# Statements of Cash Flows

For the year ended 31 December 2015

|                                                               | Group                                      |                                            | Company                                    |                                            |
|---------------------------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------------|
|                                                               | Year ended<br>31 December<br>2015<br>£'000 | Year ended<br>31 December<br>2014<br>£'000 | Year ended<br>31 December<br>2015<br>£'000 | Year ended<br>31 December<br>2014<br>£'000 |
| <b>Cash flows from operating activities</b>                   |                                            |                                            |                                            |                                            |
| Profit for the year                                           | 1,469                                      | 934                                        | 474                                        | 808                                        |
| Adjustments for                                               |                                            |                                            |                                            |                                            |
| Depreciation of property, plant and equipment                 | 1,498                                      | 1,497                                      | —                                          | —                                          |
| Amortisation of capitalised development costs                 | 270                                        | 262                                        | —                                          | —                                          |
| Amortisation of intangible assets arising on acquisitions     | 636                                        | 614                                        | —                                          | —                                          |
| (Profit)/loss on sale of property, plant and equipment        | (2)                                        | 52                                         | —                                          | —                                          |
| Finance costs                                                 | 364                                        | 411                                        | 316                                        | 394                                        |
| Finance income                                                | (2)                                        | (8)                                        | (2,057)                                    | (1,920)                                    |
| Taxation                                                      | 514                                        | 481                                        | 211                                        | 133                                        |
| Share based payments – value of employee service              | 366                                        | 90                                         | 366                                        | 90                                         |
| Increase in inventories                                       | (214)                                      | (86)                                       | —                                          | —                                          |
| Decrease/(increase) in trade and other receivables            | 124                                        | (50)                                       | 359                                        | (1,188)                                    |
| (Decrease)/increase in trade and other payables               | (400)                                      | (1,375)                                    | 516                                        | (300)                                      |
| <b>Cash generated from/(used in) operations</b>               | <b>4,623</b>                               | <b>2,822</b>                               | <b>185</b>                                 | <b>(1,983)</b>                             |
| Interest paid                                                 | (389)                                      | (352)                                      | (341)                                      | (336)                                      |
| Tax paid                                                      | (129)                                      | (103)                                      | —                                          | —                                          |
| <b>Net cash generated from/(used in) operating activities</b> | <b>4,105</b>                               | <b>2,367</b>                               | <b>(156)</b>                               | <b>(2,319)</b>                             |
| <b>Cash flows from investing activities</b>                   |                                            |                                            |                                            |                                            |
| Acquisition of subsidiaries (net of cash acquired)            | (6,301)                                    | (200)                                      | (8,046)                                    | (200)                                      |
| Purchases of property, plant and equipment                    | (1,385)                                    | (1,331)                                    | —                                          | —                                          |
| Proceeds from sale of property, plant and equipment           | 5                                          | 162                                        | —                                          | —                                          |
| Proceeds from sale of investments                             | —                                          | 47                                         | —                                          | 47                                         |
| Capitalised development costs                                 | (308)                                      | (269)                                      | —                                          | —                                          |
| Interest received                                             | 2                                          | 8                                          | 2,057                                      | 1,920                                      |
| <b>Net cash (used in)/generated from investing activities</b> | <b>(7,987)</b>                             | <b>(1,583)</b>                             | <b>(5,989)</b>                             | <b>1,767</b>                               |
| <b>Cash flows from financing activities</b>                   |                                            |                                            |                                            |                                            |
| Proceeds from issue of shares                                 | 4,422                                      | 6                                          | 4,422                                      | 6                                          |
| Repayment of borrowings                                       | (2,120)                                    | (2,120)                                    | (2,120)                                    | (2,120)                                    |
| Proceeds from borrowings                                      | 3,500                                      | —                                          | 3,500                                      | —                                          |
| Finance lease principal repayments                            | (118)                                      | (218)                                      | —                                          | —                                          |
| <b>Net cash generated from/(used in) financing activities</b> | <b>5,684</b>                               | <b>(2,332)</b>                             | <b>5,802</b>                               | <b>(2,114)</b>                             |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   | <b>1,802</b>                               | <b>(1,548)</b>                             | <b>(343)</b>                               | <b>(2,666)</b>                             |
| Cash and cash equivalents at the beginning of the year        | 2,603                                      | 4,158                                      | (176)                                      | 2,490                                      |
| Exchange gains/(losses) on cash and cash equivalents          | 22                                         | (7)                                        | —                                          | —                                          |
| <b>Cash and cash equivalents at the end of the year</b>       | <b>4,427</b>                               | <b>2,603</b>                               | <b>(519)</b>                               | <b>(176)</b>                               |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 1. Accounting policies

Accounting policies for the year ended 31 December 2015

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

### Basis of preparation

The parent company and consolidated accounts have been prepared on the basis of historic cost convention and in accordance with IFRS issued by the International Accounting Standards Board ('IASB') that have been adopted by the European Union (EU).

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 10 to 23. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Business Review on pages 19 to 20. In addition, note 28 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The going concern assessment considers whether it is appropriate to prepare the financial statements on a going concern basis.

As outlined in this Business Review, the Group has significant financial resources available. As at 31 December 2015, the Group had cash balances of £4.4 million and external bank borrowings with Royal Bank of Scotland of £8.1 million, of which £2.1 million was due within one year. Subsequent to the year end, the borrowings have been refinanced with Barclays to provide increased and more flexible borrowings at lower cost. This has reduced annual loan repayments from £2.1 million to £1.0 million. In addition, in the year ended 31 December 2015 the Group generated cash from operations of £4.6 million (2014: £2.8 million) and has the flexibility to manage cash inflows derived from sales and cash outflows from marketing and capital expenditure.

The Group offers a broad range of services and products across a wide spectrum of customers, and sources from a significant number of suppliers, which ensures the Directors are well placed to manage the business risks and uncertainties set out in this Business Review. In addition, in the short term at least, demand for the Group's services and products remains relatively unaffected by changes in the global economy.

The Group's forecasts and projections demonstrate that the Group has sufficient financial resources to meet its liabilities and covenants over the year from the date of this Annual Report and Accounts.

In accordance with the guidance for Directors of listed companies 'Going Concern and Financial Reporting' and, after making appropriate enquiries, the Directors have a reasonable expectation that the parent company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

On publishing the parent company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in section 401 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes which form a part of these approved financial statements.

The IFRS adopted by the EU applied by the Group in the preparation of these financial statements are those that were effective at 31 December 2015. The Group's financial statements have had no significant impact from new IFRS and amendments to International Accounting Standards ('IAS') which became effective during the year.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2016 or later periods and which the Group has decided not to adopt early. The Group has considered the impact of these new standards and interpretations in future periods on profit, earnings per share and net assets. None of these new standards or interpretations are expected to have a material impact.

### Accounting judgements and estimates

The preparation of accounts in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reporting amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Impairment tests have been undertaken with respect to goodwill and intangible assets (notes 9, 10, and 11) using commercial judgement and a number of assumptions and estimates have been made to support their carrying amounts. Estimating a value in use amount requires management to make an estimate of the future expected cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The tangible assets, intangible assets and liabilities arising on acquisitions, are identified and recognised at fair value. The assessment of fair value involves a number of assumptions and estimates made by management.

An assessment is made of the value of revenue to be recognised in relation to payments made in advance of services. For example, where customers purchase pre-paid vouchers for DNA sequencing services, an assessment is made of the likely future redemption rate to estimate the quantum of deferred income to be recognised as a liability and revenue to be recognised respectively.

A number of accounting estimates and judgements are incorporated within the impairment provisions for trade receivables which are described in more detail in note 15. A number of accounting estimates and judgements are incorporated within the provisions for share-based payments. These are described in more detail in note 22.

The Group is required to estimate its corporation tax. This requires an estimate of the current tax liability together with an assessment of the temporary differences which arise as a result of different accounting and tax treatments. These temporary differences result in deferred tax assets or liabilities. Deferred tax assets are only recognised to the extent that it is more likely than not that the asset will be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income.

#### Consolidation

The Group's consolidated financial statements include the results of the Company and all its subsidiaries. A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to derive benefits from its activities. The results of subsidiaries acquired or sold are included in the financial statements for the periods from or to the date on which the transaction became unconditional. Intra-group sales, profits and balances are eliminated fully on consolidation.

#### Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries are reported at cost less amounts written off for impairment.

#### Business combinations

The Group accounts for business combinations by applying IFRS 3 Business Combinations (revised). Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired party.

The acquired party's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

#### Discontinued operations

The Group classifies cash generating units as discontinued where they have been disposed of and represent a separate major line of business or geographical area of operation. When an operation is classified as a discontinued operation, the Consolidated Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative year.

#### Intangible assets

##### Goodwill

Goodwill represents the excess of fair value of the purchase consideration over the Group's share of the fair value of the identifiable net assets acquired. Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indicator of impairment. Goodwill is carried at cost less accumulated impairment losses. Any impairment is recognised in the period in which it is identified. On disposal, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

# Notes to the Consolidated Financial Statements continued

## **1. Accounting policies** continued

### *Development costs and acquired computer software*

Development costs are written off as incurred except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised from the point of sale or use of the product on a straight-line basis over the period during which the Group is expected to benefit, usually four years. Development costs on projects in progress are not amortised. Provision is made for any impairment in the carrying value of such development costs. Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software and is amortised over its operational life.

### *Distribution agreements and customer relationships*

Distribution agreements and customer relationships have been valued at fair value and are amortised on either a straight-line or reducing balance basis in accordance with the expected flow of future economic benefits, typically between four and six years.

### *Financial assets at fair value through profit or loss*

Financial assets are valued at fair value through profit or loss when classified as held for trading or designated as such on initial recognition. They are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss. Financial assets comprise equity securities.

### *Property, plant and equipment*

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected operational life as follows:

- Freehold buildings 50 years
- Leasehold improvements lower of 10 years and remaining lease term
- Plant and machinery 5 – 15 years
- Fixtures, fittings and computer software 3 – 10 years
- Motor vehicles 4 years
- Freehold land is not depreciated

### *Impairment of assets*

Assets that have an indefinite useful economic life are not subject to amortisation and are tested at least annually or whenever there is an indicator of impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Impairment losses are recognised in the Statement of Comprehensive Income.

### *Government grants*

Government grants of a capital nature are released to the Statement of Comprehensive Income by equal annual instalments over the expected useful economic lives of the relevant assets. Those of a revenue nature are included in the Statement of Comprehensive Income when the performance conditions have been met.

### *Leasing and hire purchase commitments*

#### *As lessee*

Assets obtained under finance leases and hire purchase contracts that transfer substantially all the risks and rewards of ownership to the Group are capitalised in the Statement of Financial Position and depreciated over the shorter of the lease term and their useful economic lives. The interest element of the rental obligation is charged to the Statement of Comprehensive Income over the period of the lease and represents a constant proportion of the balance of the capital repayments outstanding. Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

#### *As lessor*

Amounts receivable under operating leases are included in revenue on a straight-line basis.

## Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes transport and handling costs. In the case of manufactured products cost includes all direct expenditure and production overheads based on a normal level of activity. Net realisable value is the price at which inventory can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolete, slow-moving and defective inventory.

## Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of discounts and VAT. It comprises the value of sales of contract pathology, sequencing, contract research, stability storage and analytical testing services, processed human tissue, serology and genomic reagents, antibodies, LBC systems and testing kits, controlled environment storage equipment and related servicing and validation.

Amounts received or receivable for services, typically provided under contract pathology, sequencing services, stability storage and analytical testing services, are recognised as revenue when services are provided and any obligations are fulfilled.

Revenue from sales of processed human tissue, genomic reagents and antibodies and serology products is recognised when goods are delivered and accepted by the customer.

In respect of income relating to annual service contracts which are invoiced in advance at the inception of the agreement, it is the Group's policy to defer a proportion of the income, as each contract has an element of associated costs which are incurred throughout the contract's life.

Long term contracts which include contract research projects and controlled environment storage equipment, are those where activity falls into different accounting periods. Revenue on long term contracts is recognised as the contract progresses. Attributable profit is recognised once the outcome of a long term contract can be assessed with reasonable certainty. Attributable profit is recognised on the cost percentage completion method. Immediate provision is made for all foreseeable losses if a contract is assessed as unprofitable.

## LBC testing kits

The price charged by the Group for the LBC testing kits is specified in the Supply Agreements (which are typically for five years) negotiated with each customer.

The price for the testing kits comprises an amount for laboratory consumables and reagents required to perform the tests and, where the LBC systems are supplied on a rental basis, an equipment premium, which is equivalent to a rental charge, and an amount for maintenance of the systems during the term of the Supply Agreement.

Revenue from the laboratory consumables and reagents is recognised when the testing kits are delivered and accepted by the customer. Revenue from the equipment premium and maintenance element is recognised over the period in which the customer is expected to benefit from the provisions of these elements of the supply.

## Pre-paid vouchers

Vouchers are supplied to customers who purchase them in advance in return for the right to receive certain services in the future. These are not cash refundable. The revenue associated with these voucher sales is recognised when the services are performed and our obligations met with an estimate made for a proportion of vouchers that are not expected to be redeemed which is based on prior period redemption rates.

## Employee benefits

### Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

# Notes to the Consolidated Financial Statements continued

## **1. Accounting policies** continued

### *Share-based compensation*

The Group operates a number of share option and share save schemes. For all grants of share options and awards, the fair value as at the date of grant is calculated using either the Black-Scholes option pricing model or a Monte Carlo simulation where market based conditions exist and the corresponding expense is recognised on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Upon exercise of the options the proceeds received are credited to share capital.

### *Share options granted to subsidiary employees*

The parent company grants share options over its own ordinary shares to employees of subsidiary companies. These employees provide services to the subsidiary companies. The cost of these shares is recharged to the subsidiary companies where applicable.

### **Interest**

Interest receivable/payable is credited/charged to the Statement of Comprehensive Income using the effective interest method.

### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Their carrying amount is reviewed at each reporting date on the same basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, on a non-discounted basis, and is charged in the Statement of Comprehensive Income.

### **Foreign currency**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to the Statement of Comprehensive Income.

The results of overseas operations are translated at the monthly average rate of exchange and net assets at the rate ruling at the reporting date. Exchange differences arising on the translation of opening net assets and results of overseas operations are reported in the foreign currency translation reserve. Similarly, exchange differences arising on the translation of intercompany balances with overseas subsidiaries are reported in the foreign currency translation reserves to the extent that such balances are considered to form part of the net investments in that overseas subsidiary.

### **Segmental reporting**

In accordance with IFRS 8 Operating Segments, a breakdown of certain data in the financial statements is given by segment. The segments are the same as those used for internal reporting. The aim is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities.

Source BioScience is organised into two business segments: Laboratory Services and Products. The Group's reportable segments are strategic business units that offer different services and products for which monthly financial information is provided to the Board and senior management.

Laboratory Services comprises the laboratory and analytical testing activities of the Group including diagnostic testing for cancer and infectious disease, DNA sequencing and contract research activities, stability and cryostorage in addition to analytical services, and stability testing.

Products comprises the portfolio of Clinical Products, including serology products for blood and tissue banking and liquid based cytology products for cervical cancer screening, in addition to the portfolio of Life Science Research Reagents, including cDNA clones and other biomolecular tools, and controlled environment storage equipment and related servicing and validation.

All directly attributable costs are charged to the business segments. These predominantly represent costs of sales and establishment costs. Sales and marketing costs are allocated in proportion to revenue. Other head office costs relating to central activities and shared services are not allocated to the business units but are controlled centrally and reported separately.

#### Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

#### Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

##### *Trade and other receivables*

Trade and other receivables are measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

##### *Bank borrowings*

Interest bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

##### *Trade and other payables*

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

##### *Equity instruments*

Equity instruments issued by the Group are recorded as the value of the proceeds received net of direct issue costs.

##### *Derivative financial instruments and hedging activities*

The Group from time to time holds derivative financial instruments to hedge its exposure to foreign currency exchange rates and interest rates. Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income.

The Group does not apply hedge accounting.

# Notes to the Consolidated Financial Statements continued

## 2. Operating segments

Information about reporting segments

For the purposes of management reporting to the chief operating decision maker, the commercial activities of the Group are organised into two segments

- Laboratory Services
- Products

The reporting segments have been updated in the period to reflect the broadening of the revenue base of the Group and the enhancements to the portfolio of services and products over recent years. The enlarged portfolio has many applications across a number of industries including the healthcare, life science research and biopharma markets. The segmental information provided for the year ended 31 December 2015 reflects these two segments of Laboratory Services and Products. The comparative numbers for 2014 have been accordingly restated.

Financial information for each operating division is also available in a disaggregated form in line with the identified cash generating units.

During the year there were immaterial sales between business segments (2014: immaterial), and where these do occur they are at arm's length pricing.

Unallocated costs represent corporate expenses and common operating costs. Segment assets include intangible assets including goodwill, plant and equipment, stocks and debtors. Unallocated assets include a portion of freehold land and buildings, other receivables and prepayments and cash. Segment liabilities comprise operating liabilities and exclude borrowings. Unallocated liabilities comprise borrowings and trade and other payables. Segment capital expenditure comprises additions to property, plant and equipment and capitalised development costs.

| <b>Year ended 31 December 2015</b>                                   | <b>Laboratory<br/>Services<br/>£'000</b> | <b>Products<br/>£'000</b> | <b>Unallocated<br/>£'000</b> | <b>Group<br/>£'000</b> |
|----------------------------------------------------------------------|------------------------------------------|---------------------------|------------------------------|------------------------|
| <b>Continuing operations</b>                                         |                                          |                           |                              |                        |
| Revenue                                                              | 15,602                                   | 10,700                    | —                            | <b>26,302</b>          |
| Segment result                                                       | 5,502                                    | 2,652                     | (5,809)                      | <b>2,345</b>           |
| Finance income                                                       | —                                        | —                         | 2                            | <b>2</b>               |
| Finance costs                                                        | —                                        | —                         | (364)                        | <b>(364)</b>           |
| Profit/(loss) before tax                                             | 5,502                                    | 2,652                     | (6,171)                      | <b>1,983</b>           |
| Taxation                                                             | —                                        | —                         | (514)                        | <b>(514)</b>           |
| Profit/(loss) for the year                                           | 5,502                                    | 2,652                     | (6,685)                      | <b>1,469</b>           |
| <b>Other segment items (including those arising on acquisitions)</b> |                                          |                           |                              |                        |
| Capital expenditure                                                  |                                          |                           |                              |                        |
| — property, plant and equipment                                      | 1,436                                    | 21                        | 225                          | <b>1,682</b>           |
| — development costs                                                  | 183                                      | 184                       | —                            | <b>367</b>             |
| — customer relationships                                             | 1,409                                    | —                         | —                            | <b>1,409</b>           |
| Depreciation                                                         | 722                                      | 426                       | 350                          | <b>1,498</b>           |
| Amortisation of intangible assets arising on acquisitions            | 499                                      | 137                       | —                            | <b>636</b>             |
| Amortisation of development costs                                    | 160                                      | 110                       | —                            | <b>270</b>             |
| Other non-cash expenses                                              |                                          |                           |                              |                        |
| — share option scheme                                                | —                                        | —                         | 366                          | <b>366</b>             |

| Year ended 31 December 2014                               | Laboratory<br>Services<br>£'000 | Products<br>£'000 | Unallocated<br>£'000 | Group<br>£'000 |
|-----------------------------------------------------------|---------------------------------|-------------------|----------------------|----------------|
| Continuing operations                                     |                                 |                   |                      |                |
| Revenue                                                   | 13,300                          | 11,875            | —                    | 25,175         |
| Segment result                                            | 4,737                           | 2,362             | (5,281)              | 1,818          |
| Finance income                                            | —                               | —                 | 8                    | 8              |
| Finance costs                                             | —                               | —                 | (411)                | (411)          |
| Profit/(loss) before tax                                  | 4,737                           | 2,362             | (5,684)              | 1,415          |
| Taxation                                                  | —                               | —                 | (481)                | (481)          |
| Profit/(loss) for the year                                | 4,737                           | 2,362             | (6,165)              | 934            |
| Other segment items                                       |                                 |                   |                      |                |
| Capital expenditure                                       |                                 |                   |                      |                |
| — property, plant and equipment                           | 952                             | 185               | 194                  | 1,331          |
| — development costs                                       | 142                             | 127               | —                    | 269            |
| Depreciation                                              | 734                             | 448               | 315                  | 1,497          |
| Amortisation of intangible assets arising on acquisitions | 351                             | 263               | —                    | 614            |
| Amortisation of development costs                         | 138                             | 124               | —                    | 262            |
| Other non-cash expenses                                   |                                 |                   |                      |                |
| — share option scheme                                     | —                               | —                 | 90                   | 90             |

#### Geographical segments

The Group manages its business segments on a global basis. The operations are based primarily in the UK, with additional facilities in Europe and the US.

The revenue analysis in the table below is based on the location of the customer, with the segment assets owned and capital expenditure made by Group Companies located in that area/country.

|                       | Revenue       |               | Total assets  |               | Capital expenditure |               |
|-----------------------|---------------|---------------|---------------|---------------|---------------------|---------------|
|                       | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000       | 2014<br>£'000 |
| UK                    | 20,309        | 20,153        | 45,446        | 34,811        | 1,302               | 1,020         |
| Europe (excluding UK) | 3,853         | 3,179         | 1,494         | 1,772         | 5                   | 36            |
| Americas              | 1,727         | 1,606         | 1,470         | 1,585         | 78                  | 275           |
| Middle East, Asia     | 413           | 237           | —             | —             | —                   | —             |
| Total                 | 26,302        | 25,175        | 48,410        | 38,168        | 1,385               | 1,331         |

#### Analysis of revenue by category

The Group's revenue is analysed as follows:

|                                        | 2015<br>£'000 | 2014<br>£'000 |
|----------------------------------------|---------------|---------------|
| Revenue from the provision of services | 15,602        | 13,300        |
| Revenue from sales of goods            | 9,819         | 10,670        |
| Revenue from operating lease rentals   | 881           | 1,205         |
| Total                                  | 26,302        | 25,175        |

# Notes to the Consolidated Financial Statements continued

## 3. Acquisitions of subsidiaries

### (a) Select Pharma Laboratories Ltd ('Select')

On 17 August 2015 Source BioScience completed the acquisition of the entire ordinary share capital of Select for consideration of up to £7.3 million, excluding transaction costs of £0.4 million and any adjustments for working capital. The principal activities of Select are pharmaceutical testing, including physical and chemical testing, and microbiological analyses for applications in therapeutics and healthcare products.

The acquired business contributed revenue of £1.3 million and profit before tax of £0.2 million to the Group for the period from 17 August 2015 to 31 December 2015. The profit before tax is after charging £0.1 million of amortisation resulting from the uplift to the fair valuation of intangible assets acquired with the business.

If the acquisition had occurred on 1 January 2015, Group revenue would have been £3.6 million higher and the profit before tax would have increased by £0.4 million on a pro rata basis. These amounts have been calculated by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets required by IFRS had been applied from 1 January 2015.

The book and fair values of the assets and liabilities acquired were as follows:

|                                                 | Fair value<br>£'000 |
|-------------------------------------------------|---------------------|
| Tangible assets — property, plant and equipment | 292                 |
| Intangible assets — customer relationships      | 1,409               |
| Inventories                                     | 1                   |
| Other current assets                            | 898                 |
| Cash and cash equivalents                       | 1,728               |
| Current financial liabilities                   | (1,776)             |
| Deferred tax                                    | (191)               |
| Value of net assets acquired                    | 2,361               |
| Goodwill arising on acquisition                 | 6,284               |
| Consideration                                   | 8,645               |
| Consideration is made up as follows:            |                     |
| Initial cash consideration                      | 6,700               |
| Contingent consideration                        | 600                 |
|                                                 | 7,300               |
| Working capital payment                         | 1,345               |
|                                                 | 8,645               |

The goodwill represents future economic benefits arising from assets that are not capable of being identified individually nor recognised as separate assets. This will include acquirer specific synergies that arise in the post-acquisition period such as cross-selling opportunities and the enhancement of technologies and processes between existing and acquired sites, the technical skills and customer support provided by the business and attributable to the workforce and access to Select's revenue stream.

Within other current assets is gross trade receivables of £1.1 million of which £0.3 million is provided on acquisition.

The working capital payment was paid on 17 August 2015.

The contingent consideration is payable on 17 August 2017 with a minimum of £0.5 million due and a further £0.1 million contingent on the Company's share performance.

(b) Source BioScience Scotland Limited, formerly The Moffat Partnership Limited ('BritainsDNA')

On 10 December 2015 Source BioScience completed the acquisition of the entire ordinary share capital of BritainsDNA for total consideration of £0.1 million. The principal activity of BritainsDNA is the provision of DNA ancestry kits

The acquired business contributed negligible revenue and profit before tax to the Group for the period from 10 December 2015 to 31 December 2015

If the acquisition had occurred on 1 January 2015, Group revenue would have been £0.5 million higher and the profit before tax would have remained unchanged on a pro forma basis. These amounts have been calculated by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets required by IFRS had been applied from 1 January 2015

The book and fair values of the assets and liabilities acquired were as follows

|                                                 | Fair value<br>£'000 |
|-------------------------------------------------|---------------------|
| Tangible assets — property, plant and equipment | 4                   |
| Intangible assets — development costs           | 59                  |
| Inventories                                     | 5                   |
| Other current assets                            | 5                   |
| Cash and cash equivalents                       | 17                  |
| Current financial liabilities                   | (570)               |
| Value of net liabilities acquired               | (480)               |
| Goodwill arising on acquisition                 | 584                 |
| Consideration                                   | 104                 |
| Consideration is made up as follows             |                     |
| Initial cash consideration                      | 1                   |
| Deferred consideration                          | 103                 |
|                                                 | 104                 |

The goodwill represents future economic benefits arising from assets that are not capable of being identified individually nor recognised as separate assets. This will include acquirer specific synergies that arise from the vertical integration in the post-acquisition period of the product offering

The deferred consideration of £0.1 million was paid in full on 22 January 2016

#### 4. Non-recurring costs

As highlighted in the Business Review, non-recurring costs relate to £0.4 million of acquisition costs and £0.2 million of integration costs. The non-recurring costs in 2014 comprised £0.7 million in respect of integration costs and £0.1 million of restructuring costs attributable to the changes to the Board of Directors.

# Notes to the Consolidated Financial Statements continued

## 5. Finance (costs)/income — net

|                                              | Group         |               | Company       |               |
|----------------------------------------------|---------------|---------------|---------------|---------------|
|                                              | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| Finance income                               |               |               |               |               |
| Interest receivable on deposits              | 2             | 8             | 1             | 7             |
| Interest receivable on intra-group loans     | —             | —             | 2,056         | 1,913         |
| Finance income                               | 2             | 8             | 2,057         | 1,920         |
| Finance costs                                |               |               |               |               |
| Interest payable on bank loans               | (295)         | (345)         | (288)         | (336)         |
| Interest payable on finance leases           | (2)           | (8)           | —             | —             |
| Amortisation of loan arrangement fees        | (48)          | (59)          | (48)          | (59)          |
| Foreign exchange translation                 | (39)          | —             | —             | —             |
| Net gain on derivative financial instruments | 20            | 1             | 20            | 1             |
| Finance costs                                | (364)         | (411)         | (316)         | (394)         |
| Finance (costs)/income — net                 | (362)         | (403)         | 1,741         | 1,526         |

## 6. Earnings per share

Basic earnings per share are calculated by dividing the result for the year attributable to ordinary equity shareholders of the Company by the weighted average number of shares in issue during the year. Diluted earnings per share are calculated by dividing the result for the year attributable to ordinary equity shareholders by the weighted average number of ordinary shares in issue during the year adjusted for the effects of dilutive options.

The calculation of basic earnings per share for the year was based on the profit attributable to ordinary shareholders of £1,469,000 (2014 £934,000 profit) and 326,788,526 ordinary shares (2014 313,504,170 ordinary shares) being the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share for the year is based on the profit attributable to ordinary shareholders of £1,469,000 (2014 £934,000 profit) and the weighted average number of ordinary shares in issue, adjusted for 10,256,494 dilutive options (2014 6,196,084 dilutive options) of 337,045,020 (2014 319,700,254).

IAS 33 Earnings per share requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share.

Reconciliation of the earnings and weighted average number of shares used in the calculations is set out below.

|                                                | 2015              |                                                     |                                   | 2014              |                                                     |                                   |
|------------------------------------------------|-------------------|-----------------------------------------------------|-----------------------------------|-------------------|-----------------------------------------------------|-----------------------------------|
|                                                | Earnings<br>£'000 | Weighted<br>average<br>number of<br>shares<br>000's | Per<br>share<br>amount<br>(pence) | Earnings<br>£'000 | Weighted<br>average<br>number of<br>shares<br>000's | Per<br>share<br>amount<br>(pence) |
| <b>Basic EPS</b>                               |                   |                                                     |                                   |                   |                                                     |                                   |
| Earnings attributable to ordinary shareholders | 1,469             | 326,789                                             | 0.45                              | 934               | 313,504                                             | 0.30                              |
| <b>Diluted EPS</b>                             |                   |                                                     |                                   |                   |                                                     |                                   |
| Earnings attributable to ordinary shareholders | 1,469             | 337,045                                             | 0.44                              | 934               | 319,700                                             | 0.29                              |
| <b>Adjusted basic EPS*</b>                     |                   |                                                     |                                   |                   |                                                     |                                   |
| Earnings attributable to ordinary shareholders | 2,749             | 326,789                                             | 0.84                              | 2,356             | 313,504                                             | 0.75                              |
| <b>Adjusted diluted EPS*</b>                   |                   |                                                     |                                   |                   |                                                     |                                   |
| Earnings attributable to ordinary shareholders | 2,749             | 337,045                                             | 0.82                              | 2,356             | 319,700                                             | 0.74                              |

\* Adjusted results are stated after eliminating non-recurring acquisition and restructuring costs of £644,000 (2014 £808,000) and amortisation of intangibles arising from acquisitions of £636,000 (2014 £614,000). The adjusted results have been included to present a fair comparison of the progress in the underlying business.

## 7. Profit on ordinary activities before tax

|                                                                         | 2015<br>£'000 | 2014<br>£'000 |
|-------------------------------------------------------------------------|---------------|---------------|
| <b>Group</b>                                                            |               |               |
| The following items have been included in arriving at profit before tax |               |               |
| Staff costs                                                             | 7,527         | 6,791         |
| Depreciation of property, plant and equipment                           |               |               |
| — owned assets                                                          | 1,498         | 1,477         |
| — under finance leases                                                  | —             | 20            |
| Amortisation of intangible assets arising on acquisitions               | 636           | 614           |
| Amortisation of capitalised development costs                           | 270           | 262           |
| Other operating lease rentals payable                                   |               |               |
| — property                                                              | 282           | 255           |
| — other                                                                 | 6             | —             |
| Repairs and maintenance expenditure on property, plant and equipment    | 80            | 111           |
| Research and development expenditure                                    | 170           | 158           |

|                                                                       | 2015<br>£'000 | 2014<br>£'000 |
|-----------------------------------------------------------------------|---------------|---------------|
| <b>Company</b>                                                        |               |               |
| The following item has been included in arriving at profit before tax |               |               |
| Staff costs                                                           | 1,231         | 964           |

Services provided by the Group's auditor and network firms

During the year the Group obtained the following services from the Group's auditor as detailed below

|                                                           | 2015<br>£'000 | 2014<br>£'000 |
|-----------------------------------------------------------|---------------|---------------|
| <b>Audit services</b>                                     |               |               |
| — statutory audit of Company's financial statements       | 10            | 10            |
| — statutory audit of financial statements of subsidiaries | 72            | 66            |
| <b>Tax services</b>                                       |               |               |
| — compliance services                                     | 37            | 45            |
| — advisory services                                       | 25            | 9             |
| <b>Non audit services</b>                                 |               |               |
| — transaction related services                            | 27            | —             |
| — other                                                   | 4             | —             |
|                                                           | 175           | 130           |

## 8. Taxation

|                               | 2015<br>£'000 | 2014<br>£'000 |
|-------------------------------|---------------|---------------|
| <b>Group</b>                  |               |               |
| <b>Current tax</b>            |               |               |
| — continuing operations       | 146           | 88            |
| — prior year adjustment       | (6)           | (58)          |
|                               | 140           | 30            |
| <b>Deferred tax (note 20)</b> | 374           | 451           |
| <b>Taxation charge</b>        | 514           | 481           |

# Notes to the Consolidated Financial Statements continued

## 8. Taxation continued

The tax charge for the year is higher (2014 higher) than the standard rate of corporation tax in the UK of 20.25% (2014 21.50%)  
The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows

| Group                                                                                       | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------------------------------------------------------------------------|---------------|---------------|
| Profit on ordinary activities before tax                                                    | 1,983         | 1,415         |
| Profit on ordinary activities multiplied by rate of corporation tax of 20.25% (2014 21.50%) | 402           | 304           |
| <b>Effects of:</b>                                                                          |               |               |
| Expenses not deductible for tax purposes                                                    | 91            | 16            |
| Deferred tax temporary differences not recognised                                           | 88            | 226           |
| Over-provided in prior years                                                                | (6)           | (58)          |
| Other temporary timing differences                                                          | (61)          | (7)           |
| <b>Total taxation charge</b>                                                                | <b>514</b>    | <b>481</b>    |

The UK corporation tax rate reduced to 21% from 1 April 2014 and 20% from 1 April 2015. On 26 October 2015 reductions in the corporation tax rate to 19% (from 1 April 2017) and to 18% (from 1 April 2020) were substantively enacted. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on the rate of 20% being the weighted average rate at which the timing differences will reverse.

## 9. Intangible fixed assets — goodwill

| Group                                        | 2015<br>£'000 | 2014<br>£'000 |
|----------------------------------------------|---------------|---------------|
| <b>Cost</b>                                  |               |               |
| At 1 January                                 | 18,287        | 18,287        |
| Acquisitions – through business combinations | 6,868         | —             |
| <b>At 31 December</b>                        | <b>25,155</b> | <b>18,287</b> |
| <b>Aggregate amortisation and impairment</b> |               |               |
| At 1 January                                 | 2,291         | 2,291         |
| At 31 December                               | 2,291         | 2,291         |
| <b>Net book amount at 31 December</b>        | <b>22,864</b> | <b>15,996</b> |

The Company has £nil (2014 £nil) intangible fixed assets — goodwill.

In accordance with the requirements of IAS 36, Impairment of assets, goodwill is allocated to the Group's Cash Generating Units ('CGUs') that are expected to benefit from the synergies of the business combination that give rise to the goodwill.

The carrying value of goodwill attributable to each CGU is as follows:

|                            | Laboratory<br>Services<br>£'000 | Products<br>£'000 | Group<br>£'000 |
|----------------------------|---------------------------------|-------------------|----------------|
| At 31 December 2014        | 8,368                           | 7,628             | 15,996         |
| <b>At 31 December 2015</b> | <b>14,652</b>                   | <b>8,212</b>      | <b>22,864</b>  |

Goodwill has been tested for annual impairment based on an assessment of value in use and the key assumptions applied in the value in use calculations are set out below

- Cash flow projections

Management prepare detailed three year cash flow forecasts derived from the most recent annual financial budgets, approved by the Board with an appropriate extrapolation of these cash flows to give a three-year time horizon with an adjustment for the terminal value. The projections represent the best estimate of future performance based on past performance and expectations for market development. The key assumptions include expected changes to demand for products and services, selling prices and direct costs.

- Discount rate

A weighted average cost of capital of 18% (2014: 17%) on a pre-tax basis is used to discount the cash flow forecasts from each CGU based on the Group's adjusted cost of capital to reflect a market participant's discount rate. The same discount rate has been applied across each CGU as management consider this rate to be an appropriate reflection of the risks and rewards inherent to each CGU as the principal operations of each CGU are located in the UK and the end markets which each CGU are supplying are not significantly different.

- Growth rates

Growth rates commensurate with the expected increase in demand in each CGU have been used. The CGUs are at different stages of maturity and consequently the assumed growth rates differ across each CGU. A growth rate of 2.5% (2014: 2.0%) into perpetuity has been assumed for all CGUs which does not exceed the long term growth rate for the markets to which each CGU is dedicated.

Sensitivity analysis as at 31 December 2015 has indicated that no reasonable, foreseeable change to the key assumptions used in the impairment model will result in a significant impairment charge being recorded in the financial statements.

No impairment arose as a result of the valuations.

The estimates and assumptions made in connection with impairment testing could differ from future actual results of operations and cash flows. Further, future events could cause the Group to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired. Any resulting impairment loss could have a significant impact on the Group's financial condition and results of operations. The carrying value of goodwill and other intangible assets will continue to be reviewed at least annually for impairment and adjusted to the recoverable amount if required.

## 10. Intangible fixed assets — development costs

| Group                                 | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------------------|---------------|---------------|
| Cost                                  |               |               |
| At 1 January                          | 3,549         | 3,306         |
| Acquisition                           | 120           | —             |
| Additions                             | 308           | 269           |
| Exchange adjustments                  | (24)          | (26)          |
| At 31 December                        | 3,953         | 3,549         |
| Aggregate amortisation and impairment |               |               |
| At 1 January                          | 2,976         | 2,728         |
| Acquisition                           | 61            | —             |
| Charge for the year                   | 270           | 262           |
| Exchange adjustments                  | (15)          | (14)          |
| At 31 December                        | 3,292         | 2,976         |
| <b>Net book amount at 31 December</b> | <b>661</b>    | <b>573</b>    |

Intangible fixed assets — development costs represent the costs, and associated amortisation, of internally generated software. All amortisation charges in the year have been charged through administrative expenses.

The Company has £nil (2014: £nil) intangible fixed assets — development costs.

# Notes to the Consolidated Financial Statements continued

## 11. Intangible fixed assets — distribution agreements and customer relationships

| Group                                        | 2015<br>£'000 | 2014<br>£'000 |
|----------------------------------------------|---------------|---------------|
| Cost                                         |               |               |
| At 1 January                                 | 3,639         | 3,639         |
| Acquisitions – through business combinations | 1,409         | —             |
| At 31 December                               | 5,048         | 3,639         |
| Aggregate amortisation and impairment        |               |               |
| At 1 January                                 | 2,094         | 1,480         |
| Charge for the year                          | 636           | 614           |
| 31 December                                  | 2,730         | 2,094         |
| <b>Net book amount at 31 December</b>        | <b>2,318</b>  | <b>1,545</b>  |

Intangible fixed assets — distribution agreements and customer relationships represent the costs, and associated amortisation, of agreements and relationships acquired with the acquisition of subsidiaries. All amortisation charges in the year have been charged through administrative expenses.

The Company has £nil (2014 £nil) intangible fixed assets — distribution agreements

## 12. Property, plant and equipment

### Group

|                                         | Freehold<br>land and<br>buildings<br>£'000 | Leasehold<br>improvements<br>£'000 | Plant and<br>machinery<br>£'000 | Fixtures and<br>fittings<br>£'000 | Motor<br>vehicles<br>£'000 | Total<br>£'000 |
|-----------------------------------------|--------------------------------------------|------------------------------------|---------------------------------|-----------------------------------|----------------------------|----------------|
| <b>2015</b>                             |                                            |                                    |                                 |                                   |                            |                |
| Cost or valuation                       |                                            |                                    |                                 |                                   |                            |                |
| At 1 January                            | 7,751                                      | 150                                | 6,900                           | 7,833                             | 42                         | 22,676         |
| Acquisitions                            | —                                          | —                                  | 634                             | 96                                | 21                         | 751            |
| Additions                               | —                                          | 7                                  | 193                             | 1,185                             | —                          | 1,385          |
| Exchange adjustments                    | —                                          | —                                  | (152)                           | 148                               | —                          | (4)            |
| Disposals                               | —                                          | —                                  | —                               | —                                 | (47)                       | (47)           |
| At 31 December                          | 7,751                                      | 157                                | 7,575                           | 9,262                             | 16                         | 24,761         |
| Accumulated depreciation and impairment |                                            |                                    |                                 |                                   |                            |                |
| At 1 January                            | 2,976                                      | 116                                | 3,687                           | 5,457                             | 21                         | 12,257         |
| Acquisitions                            | —                                          | —                                  | 353                             | 80                                | 21                         | 454            |
| Depreciation charge for the year        | 71                                         | 14                                 | 693                             | 705                               | 15                         | 1,498          |
| Exchange adjustments                    | —                                          | —                                  | (52)                            | 26                                | —                          | (26)           |
| Disposals                               | —                                          | —                                  | —                               | —                                 | (44)                       | (44)           |
| At 31 December                          | 3,047                                      | 130                                | 4,681                           | 6,268                             | 13                         | 14,139         |
| <b>Net book amount at 31 December</b>   | <b>4,704</b>                               | <b>27</b>                          | <b>2,894</b>                    | <b>2,994</b>                      | <b>3</b>                   | <b>10,622</b>  |

| 2014                                    | Freehold<br>land and<br>buildings<br>£'000 | Leasehold<br>improvements<br>£'000 | Plant and<br>machinery<br>£'000 | Fixtures and<br>fittings<br>£'000 | Motor<br>vehicles<br>£'000 | Total<br>£'000 |
|-----------------------------------------|--------------------------------------------|------------------------------------|---------------------------------|-----------------------------------|----------------------------|----------------|
| Cost or valuation                       |                                            |                                    |                                 |                                   |                            |                |
| At 1 January                            | 7,758                                      | 113                                | 6,716                           | 7,085                             | 129                        | 21,801         |
| Additions                               | —                                          | 37                                 | 531                             | 763                               | —                          | 1,331          |
| Exchange adjustments                    | (7)                                        | —                                  | (6)                             | (7)                               | —                          | (20)           |
| Disposals                               | —                                          | —                                  | (341)                           | (8)                               | (87)                       | (436)          |
| At 31 December                          | 7,751                                      | 150                                | 6,900                           | 7,833                             | 42                         | 22,676         |
| Accumulated depreciation and impairment |                                            |                                    |                                 |                                   |                            |                |
| At 1 January                            | 2,906                                      | 80                                 | 3,192                           | 4,838                             | 13                         | 11,029         |
| Depreciation charge for the year        | 71                                         | 34                                 | 693                             | 662                               | 37                         | 1,497          |
| Exchange adjustments                    | (1)                                        | 2                                  | 4                               | (42)                              | (10)                       | (47)           |
| Disposals                               | —                                          | —                                  | (202)                           | (1)                               | (19)                       | (222)          |
| At 31 December                          | 2,976                                      | 116                                | 3,687                           | 5,457                             | 21                         | 12,257         |
| Net book amount at 31 December          | 4,775                                      | 34                                 | 3,213                           | 2,376                             | 21                         | 10,419         |

Assets held under finance leases have the following net book amount

|                        | 2015<br>Fixtures and<br>fittings<br>£'000 | 2014<br>Fixtures and<br>fittings<br>£'000 |
|------------------------|-------------------------------------------|-------------------------------------------|
| Cost                   | —                                         | 350                                       |
| Aggregate depreciation | —                                         | (307)                                     |
| <b>Net book amount</b> | <b>—</b>                                  | <b>43</b>                                 |

Plant and machinery includes

|                                         | 2015<br>£'000 | 2014<br>£'000 |
|-----------------------------------------|---------------|---------------|
| Assets held for use in operating leases |               |               |
| Cost                                    | 3,842         | 3,840         |
| Aggregate depreciation brought forward  | (2,550)       | (2,204)       |
| Charge for the year                     | (358)         | (346)         |
| <b>Net book amount</b>                  | <b>934</b>    | <b>1,290</b>  |

Plant and machinery held for use in operating leases relate to LBC and auto screening cytology systems together with ancillary equipment supplied to Health Authorities and hospitals in England and Wales under consumable supply, rental and maintenance agreements. The LBC agreements are typically for a period of five years. At the year end there were 48 (2014: 48) LBC systems and seven autoscreening systems (2014: seven) held for use under such agreements.

There were no non-cancellable leases at 31 December 2015 or 31 December 2014 and the contingent rents recognised in income in 2015 were £881,000 (2014: £1,205,000).

The Company has £nil (2014: £nil) property, plant and equipment

# Notes to the Consolidated Financial Statements continued

## 13. Investments in subsidiary undertakings

Fixed asset investments

### Company

|                                       | Shares in<br>Group<br>undertakings<br>£'000 | Long term<br>loans<br>£'000 | Total<br>£'000 |
|---------------------------------------|---------------------------------------------|-----------------------------|----------------|
| <b>2015</b>                           |                                             |                             |                |
| Cost at 1 January                     | 34,161                                      | 20,158                      | 54,319         |
| Additions in the year                 | 8,749                                       | —                           | 8,749          |
| Cost at 31 December                   | 42,910                                      | 20,158                      | 63,068         |
| Impairment at 1 January               | 21,340                                      | 1,699                       | 23,039         |
| Impairment charge in the year         | —                                           | —                           | —              |
| Impairment at 31 December             | 21,340                                      | 1,699                       | 23,039         |
| <b>Net book amount at 31 December</b> | <b>21,570</b>                               | <b>18,459</b>               | <b>40,029</b>  |
|                                       |                                             |                             |                |
|                                       | Shares in<br>Group<br>undertakings<br>£'000 | Long term<br>loans<br>£'000 | Total<br>£'000 |
| <b>2014</b>                           |                                             |                             |                |
| Cost at 1 January                     | 35,795                                      | 18,524                      | 54,319         |
| Reclassification in the year          | (1,634)                                     | 1,634                       | —              |
| Cost at 31 December                   | 34,161                                      | 20,158                      | 54,319         |
| Impairment at 1 January               | 21,340                                      | 1,699                       | 23,039         |
| Impairment charge in the year         | —                                           | —                           | —              |
| Impairment at 31 December             | 21,340                                      | 1,699                       | 23,039         |
| <b>Net book amount at 31 December</b> | <b>12,821</b>                               | <b>18,459</b>               | <b>31,280</b>  |

The subsidiary undertakings of Source BioScience plc and their respective activities were as follows at 31 December 2015

|                                           | Country of<br>incorporation | Principal activity                                                                               | Percentage<br>held |
|-------------------------------------------|-----------------------------|--------------------------------------------------------------------------------------------------|--------------------|
| Source BioScience UK Limited              | England                     | Provision of diagnostic and genomic services and distribution of diagnostic and genomic products | 100                |
| Source BioScience (Orchard Place) Limited | England                     | Property rental                                                                                  | 100                |
| Source BioScience (Storage) Limited       | England                     | Provision of controlled environment storage, services and products                               | 100                |
| Source BioScience (Cryobank) Limited      | England                     | Provision of controlled environment storage services                                             | 100 <sup>d</sup>   |
| Select Pharma Laboratories Ltd            | Scotland                    | Provision of pharmaceutical, physical and chemical testing                                       | 100                |
| Source BioScience Scotland Limited        | Scotland                    | Ancestral DNA testing                                                                            | 100 <sup>g</sup>   |
| Source BioScience Ireland Limited         | Ireland                     | Provision of controlled environment storage services                                             | 100 <sup>d</sup>   |
| Source BioScience GmbH                    | Germany                     | Provision of genomic services and distribution of genomic products                               | 100 <sup>a</sup>   |
| Source BioScience Germany GmbH            | Germany                     | Intermediate holding company                                                                     | 100                |
| Source BioScience Inc                     | United States               | Provision of controlled environment storage, services and products                               | 100 <sup>e</sup>   |
| Geneservice Limited                       | England                     | Dormant                                                                                          | 100                |
| Autogen Bioclear UK Limited               | England                     | Dormant                                                                                          | 100                |
| Fairfield Imaging Limited                 | England                     | Dormant                                                                                          | 100                |
| Fairfield Telepathology Limited           | England                     | Dormant                                                                                          | 100 <sup>b</sup>   |
| Histological Solutions Limited            | England                     | Dormant                                                                                          | 100                |
| Kinetic Imaging Limited                   | England                     | Dormant                                                                                          | 100                |
| Source BioScience (Directors) Limited     | England                     | Dormant                                                                                          | 100                |
| Medical Solutions Limited                 | England                     | Dormant                                                                                          | 100                |
| Medical Solutions (Leeds) Limited         | England                     | Dormant                                                                                          | 100                |
| Cryobank Guarantor Limited                | England                     | Dormant                                                                                          | 100                |
| Pathlore Ltd                              | England                     | Dormant                                                                                          | 100 <sup>b</sup>   |
| Quinoderm Limited                         | England                     | Dormant                                                                                          | 100 <sup>c</sup>   |
| Source BioScience (Healthcare) Limited    | England                     | Dormant                                                                                          | 100                |
| Vindon Limited                            | England                     | Dormant                                                                                          | 100 <sup>d</sup>   |
| Inverclyde Biologicals Limited            | Scotland                    | Dormant                                                                                          | 100                |
| Select Storage Solutions (Scotland) Ltd   | Scotland                    | Dormant                                                                                          | 100 <sup>f</sup>   |

a Held indirectly via Source BioScience Germany GmbH

b Held indirectly via Fairfield Imaging Limited

c Held indirectly via Medical Solutions (Leeds) Limited

d Held indirectly via Source BioScience (Healthcare) Limited

e Held indirectly via Source BioScience (Storage) Limited

f Held indirectly via Select Pharma Laboratories Ltd

g Formerly The Moffat Partnership Limited

All of the above entities are included in the consolidated results of the Group and have an accounting reference date of 31 December.

All shares held are ordinary shares

# Notes to the Consolidated Financial Statements continued

## 14. Inventories

| Group            | 2015<br>£'000 | 2014<br>£'000 |
|------------------|---------------|---------------|
| Raw materials    | 1,115         | 834           |
| Work in progress | 143           | 184           |
| Finished goods   | 111           | 131           |
|                  | <b>1,369</b>  | <b>1,149</b>  |

The Group consumed £6,825,000 (2014 £7,208,000) of inventories during the year.

The Company has £nil (2014 £nil) inventories

## 15. Trade and other receivables

|                                              | Group         |               | Company       |               |
|----------------------------------------------|---------------|---------------|---------------|---------------|
|                                              | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| <b>Amounts falling due within one year:</b>  |               |               |               |               |
| Trade receivables                            | 4,915         | 4,057         | —             | —             |
| Less Provision for impairment of receivables | (510)         | (105)         | —             | —             |
| Net trade receivables                        | 4,405         | 3,952         | —             | —             |
| Amounts owed by subsidiary undertakings      | —             | —             | 4,020         | 4,388         |
| Other receivables                            | —             | 107           | —             | —             |
| Amounts recoverable on long term contracts   | 116           | 49            | —             | —             |
| Prepayments and accrued income               | 1,003         | 721           | 33            | 40            |
|                                              | <b>5,524</b>  | <b>4,829</b>  | <b>4,053</b>  | <b>4,428</b>  |

Credit risk is assessed by reference to the customer base and is considered low. Trade receivables, net of impairment provisions, are due from:

|                          | 2015<br>£'000 | 2014<br>£'000 |
|--------------------------|---------------|---------------|
| Health authorities       | 896           | 1,145         |
| Research institutions    | 512           | 725           |
| Pharmaceutical companies | 2,997         | 2,082         |
| <b>Total</b>             | <b>4,405</b>  | <b>3,952</b>  |

Any trade receivables that are overdue are assessed for impairment and provision made where applicable. Historically low default levels give rise to specific provision only where responses to collection methods have given rise to such a view. An analysis of receivables is as follows

|                       | <b>2015<br/>Gross<br/>£'000</b> | <b>2015<br/>Net of<br/>impairment<br/>£'000</b> | <b>2014<br/>Gross<br/>£'000</b> | <b>2014<br/>Net of<br/>impairment<br/>£'000</b> |
|-----------------------|---------------------------------|-------------------------------------------------|---------------------------------|-------------------------------------------------|
| Not past due          | <b>2,412</b>                    | <b>2,374</b>                                    | 1,959                           | 1,959                                           |
| Past due 0 – 30 days  | <b>1,202</b>                    | <b>1,202</b>                                    | 1,108                           | 1,108                                           |
| Past due 31 – 60 days | <b>497</b>                      | <b>458</b>                                      | 515                             | 515                                             |
| Past due 61 – 90 days | <b>268</b>                      | <b>232</b>                                      | 221                             | 221                                             |
| Past due 90+ days     | <b>536</b>                      | <b>139</b>                                      | 254                             | 149                                             |
| <b>Total</b>          | <b>4,915</b>                    | <b>4,405</b>                                    | 4,057                           | 3,952                                           |

## 16. Cash and cash equivalents/(Bank overdraft)

|                                                   | <b>Group</b>          |                       | <b>Company</b>        |                       |
|---------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                   | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
| <b>Cash and cash equivalents/(Bank overdraft)</b> |                       |                       |                       |                       |
| Cash at bank and in hand/(Bank overdraft)         | <b>4,427</b>          | 2,603                 | <b>(519)</b>          | (176)                 |

The weighted average interest rate on short term deposits at the year end was 0.5% (2014: 0.5%) and these deposits have an average maturity of nil days (2014: nil days).

## 17. Trade and other payables

|                                         | <b>Group</b>          |                       | <b>Company</b>        |                       |
|-----------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                         | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
| <b>Current</b>                          |                       |                       |                       |                       |
| Trade payables                          | <b>3,644</b>          | 2,744                 | <b>57</b>             | 74                    |
| Amounts owed to subsidiary undertakings | —                     | —                     | <b>412</b>            | —                     |
| Other tax and social security           | <b>627</b>            | 295                   | <b>3</b>              | 3                     |
| Payments on account                     | <b>174</b>            | 202                   | —                     | —                     |
| Accruals                                | <b>1,852</b>          | 984                   | <b>354</b>            | 233                   |
| Deferred income                         | <b>903</b>            | 1,046                 | —                     | —                     |
|                                         | <b>7,200</b>          | 5,271                 | <b>826</b>            | 310                   |
| <b>Non-current</b>                      |                       |                       |                       |                       |
| Deferred income                         | <b>538</b>            | 540                   | —                     | —                     |

# Notes to the Consolidated Financial Statements continued

## 18. Financial liabilities

|                                             | Group         |               | Company       |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|
|                                             | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| <b>Current</b>                              |               |               |               |               |
| Bank loans                                  | 2,075         | 2,081         | 2,075         | 2,081         |
| Finance lease obligations                   | —             | 118           | —             | —             |
|                                             | <b>2,075</b>  | <b>2,199</b>  | <b>2,075</b>  | <b>2,081</b>  |
| <b>Non-current</b>                          |               |               |               |               |
| Bank loans — repayable in two to five years | 6,060         | 4,679         | 6,060         | 4,679         |
| Derivative financial liability              | —             | 20            | —             | 20            |
|                                             | <b>6,060</b>  | <b>4,699</b>  | <b>6,060</b>  | <b>4,699</b>  |

Bank loans and overdrafts of the Group are secured by floating charges over certain assets of the Company and Source BioScience UK Limited

In September 2013 the Group secured a £9.5 million term loan facility provided by Royal Bank of Scotland, to part fund the acquisition of Vindon Healthcare plc. £6,360,000 of the loan is repayable over three years in equal quarterly instalments to September 2016 with the remaining balance of £3,115,000 payable in equal instalments in March 2017 and September 2017 respectively. In August 2015 the Group secured a £3.5 million term loan facility provided by Royal Bank of Scotland, to part fund the acquisition of Select Pharma Laboratories Ltd. The loan is repayable in seven equal quarterly instalments from December 2016.

Bank loans are stated net of unamortised arrangement fees of £70,000 (2014: £65,000).

Subsequent to the year end, the Group has secured a £10.0 million term loan and revolving credit facility with Barclays Bank plc. This replaces the facilities provided by Royal Bank of Scotland. The term loan element of £5.0 million is repayable in quarterly instalments of £250,000 commencing 24 June 2016. The revolving credit facility element of £5.0 million is payable on 24 March 2019, of which £4.0 million was drawn on 24 March 2016.

The derivative financial liability in 2014 represented the fair value at the reporting date of an interest rate swap instrument held to swap variable for fixed interest on the Group's term loan facility. This expired on 31 December 2015.

The weighted average interest rates at the reporting date were as follows:

|                | 2015       |               | 2014       |               |
|----------------|------------|---------------|------------|---------------|
|                | Fixed<br>% | Variable<br>% | Fixed<br>% | Variable<br>% |
| Bank loans     | —          | 3.6           | 5.3        | 3.7           |
| Finance leases | —          | —             | 3.5        | —             |

## 19. Deferred and contingent consideration

|                     | Group         |               | Company       |               |
|---------------------|---------------|---------------|---------------|---------------|
|                     | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| Due within one year | 103           | —             | 103           | —             |
| Due after one year  | 600           | —             | 600           | —             |
|                     | <b>703</b>    | <b>—</b>      | <b>703</b>    | <b>—</b>      |

The deferred and contingent consideration arose on the acquisition of Select and BritainsDNA in the year, see note 3 for details of this. The deferred and contingent consideration is held at fair value estimated using a Level 3 valuation method per the fair value hierarchy.

## 20. Deferred tax

The following are the deferred tax balances recognised by the Group and movements thereon during the year

| <b>Group</b>                                      | <b>Tax losses</b> | <b>Accelerated tax depreciation</b> | <b>Intangible assets</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------------------------|-------------------|-------------------------------------|--------------------------|--------------|--------------|
| <b>Deferred tax assets/(liabilities)</b>          | <b>£'000</b>      | <b>£'000</b>                        | <b>£'000</b>             | <b>£'000</b> | <b>£'000</b> |
| At 1 January 2015                                 | 1,175             | 95                                  | (309)                    | 93           | <b>1,054</b> |
| Acquisitions                                      | 122               | (31)                                | (282)                    | —            | <b>(191)</b> |
| (Charged)/credited to the profit and loss account | (488)             | (94)                                | 127                      | 81           | <b>(374)</b> |
| Credited to equity                                | —                 | —                                   | —                        | 136          | <b>136</b>   |
| <b>At 31 December 2015</b>                        | <b>809</b>        | <b>(30)</b>                         | <b>(464)</b>             | <b>310</b>   | <b>625</b>   |

| <b>Company</b>                                    | <b>Tax losses</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------------------------|-------------------|--------------|--------------|
| <b>Deferred tax assets</b>                        | <b>£'000</b>      | <b>£'000</b> | <b>£'000</b> |
| At 1 January 2015                                 | 412               | 66           | <b>478</b>   |
| (Charged)/credited to the profit and loss account | (270)             | 59           | <b>(211)</b> |
| Credited to equity                                | —                 | 101          | <b>101</b>   |
| <b>At 31 December 2015</b>                        | <b>142</b>        | <b>226</b>   | <b>368</b>   |

The following are the major deferred tax assets not recognised by the Group and movements thereon during the current and prior year

| <b>Unrecognised deferred tax assets</b> | <b>Tax losses</b> |
|-----------------------------------------|-------------------|
|                                         | <b>£'000</b>      |
| At 1 January 2014                       | <b>566</b>        |
| Movement in the year                    | <b>210</b>        |
| <b>At 31 December 2014</b>              | <b>776</b>        |
| At 1 January 2015                       | <b>776</b>        |
| Movement in the year                    | <b>87</b>         |
| <b>At 31 December 2015</b>              | <b>863</b>        |

Deferred tax assets have not been recognised in respect of these tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom

# Notes to the Consolidated Financial Statements continued

## 21. Share capital of the company

|                                 | 2015               |              | 2014               |              |
|---------------------------------|--------------------|--------------|--------------------|--------------|
|                                 | Number             | £'000        | Number             | £'000        |
| <b>Issued and fully paid</b>    |                    |              |                    |              |
| Ordinary shares of 2p each      |                    |              |                    |              |
| At 1 January                    | 313,573,965        | 6,271        | 313,273,965        | 6,265        |
| Placing of shares               | 31,383,749         | 628          | —                  | —            |
| Issues to satisfy share options | 4,334,735          | 87           | 300,000            | 6            |
| <b>At 31 December</b>           | <b>349,292,449</b> | <b>6,986</b> | <b>313,573,965</b> | <b>6,271</b> |

All ordinary shares carry equal rights in all respects including rights to vote, receive dividends and participate in any distribution on a winding up.

During the period, a total of 4,334,735 ordinary shares were issued at nominal value to satisfy the exercise of share options at various prices as follows

- 4,134,735 shares were issued as part of the net settlement of 7,550,000 share options at no cost to the employees with the nominal value satisfied from share premium
- 200,000 shares were issued to satisfy share options for cash consideration of £12,500

As part of the funding of the acquisition of Select Pharma Laboratories Ltd, 31,383,749 shares were issued for cash consideration of £4,394,000

### Potential issues of ordinary shares

Certain Directors and employees hold options to subscribe for shares in the Company at prices ranging from 0.001p to 12.38p under the share option schemes approved by shareholders in 1999 and 2001 and the Long-Term Incentive Plan approved by shareholders in 2015. 4,334,735 options on shares were exercised in 2015 (2014: 300,000). The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below

| Year of grant | Exercise price (pence) | Exercise period                        | 2015 Number       | 2014 Number       |
|---------------|------------------------|----------------------------------------|-------------------|-------------------|
| 2005          | 6.25                   | 3 May 2008 to 2 May 2015               | —                 | 175,000           |
| 2006          | 9.00                   | 14 March 2009 to 13 March 2016         | —                 | 100,000           |
| 2006          | 6.63                   | 4 September 2009 to 3 September 2016   | —                 | 1,000,000         |
| 2007          | 7.25                   | 8 June 2010 to 7 June 2017             | 300,000           | 2,650,000         |
| 2007          | 7.75                   | 3 July 2010 to 2 July 2017             | —                 | 3,500,000         |
| 2008          | 7.88                   | 31 March 2011 to 30 March 2018         | 1,400,000         | 1,600,000         |
| 2009          | 4.63                   | 31 March 2012 to 30 March 2019         | 800,000           | 850,000           |
| 2010          | 8.25                   | 26 April 2013 to 25 April 2020         | 1,300,000         | 1,475,000         |
| 2011          | 6.25                   | 24 March 2014 to 23 March 2021         | 400,000           | 650,000           |
| 2013          | 9.38                   | 27 September 2016 to 26 September 2023 | 2,250,000         | 2,250,000         |
| 2013          | 9.50                   | 21 October 2016 to 20 October 2023     | 7,200,000         | 7,200,000         |
| 2013          | 9.50                   | 21 October 2017 to 20 October 2024     | 900,000           | 900,000           |
| 2014          | 12.38                  | 28 March 2017 to 27 March 2024         | 1,400,000         | 1,400,000         |
| 2015          | 0.001                  | 15 March 2018 to 24 June 2025          | 12,210,225        | —                 |
|               |                        |                                        | <b>28,160,225</b> | <b>23,750,000</b> |

## 22. Share-based compensation

The Group has three share-related schemes in place, being the 1999 unapproved share option scheme, the 2001 Inland Revenue approved share option scheme, and the 2015 Long-Term Incentive Plan

### The 1999 unapproved share option scheme and the 2001 Inland Revenue approved share option scheme

Under both the 1999 unapproved and 2001 Inland Revenue approved schemes, the Remuneration Committee has granted options over shares in the Company to employees of the Group. Options were granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option was ten years. Awards under the share option schemes were generally reserved for employees at senior management level and above and 20 employees were eligible to participate. There were no reload features. The Group did not make annual grants on a fixed date, but rather at the discretion of the Remuneration Committee.

Options granted under these share option schemes will become exercisable on the third or fourth anniversary of the date of grant. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model with modifications to take account of any respective performance criteria. The expected life is the average expected period to exercise and the expected volatility is based on historical volatility over the same timeframe. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The fair value per option granted and the assumptions used in the calculation are as follows for the options granted in the respective of the current and preceding financial year.

|                                                     |               |
|-----------------------------------------------------|---------------|
| <b>Grant date</b>                                   | 28 March 2014 |
| Share price at grant date (pence)                   | 12.38         |
| Exercise price (pence)                              | 12.38         |
| Number of employees                                 | 16            |
| Shares under option                                 | 1,400,000     |
| Vesting period (years)                              | 4             |
| Expected volatility                                 | 33.0%         |
| Option life (years)                                 | 7             |
| Expected life (years)                               | 5             |
| Risk free rate                                      | 1.61%         |
| Expected dividends expressed as a dividend of yield | 0.0%          |
| Expectation of options vesting at 31 December 2013  | n/a           |
| Expectation of options vesting at 31 December 2014  | 100%          |
| Expectations of meeting performance criteria        | n/a           |
| Market condition                                    | No            |
| Fair value per option (pence)                       | 3.92          |

### The 2015 Long-Term Incentive Plan

A resolution was passed at the Annual General Meeting on 25 June 2015 to implement a new Long-Term Incentive Plan ('2015 LTIP'). The 2015 LTIP allows the Remuneration Committee to grant options over shares in the Company to employees of the Group. Options are granted with a fixed exercise price of 0.001p. The contractual life of an option is ten years. Awards under the 2015 LTIP are generally reserved for Executive Directors and senior management within the business. The Remuneration Committee has made a one-off award to the Executive Directors in 2015 to cover the three years ended 31 December 2017 but at its discretion can make annual awards to other senior managers.

Options granted under the 2015 LTIP will become exercisable on the third anniversary of the date of grant with the amount exercisable dependent on market and non-market based conditions. Exercise of an option is subject to continued employment. Options with non-market conditions were valued using the Black-Scholes option-pricing model with modifications to take account of any respective performance criteria. Options with market based conditions were valued at the award date using a Monte Carlo simulation with no modification to the fair value after the initial calculation. The expected life is the average expected period to exercise and the expected volatility is based on historical volatility over the same timeframe.

# Notes to the Consolidated Financial Statements continued

## 22. Share-based compensation continued

The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The fair value per option granted and the assumptions used in the calculation are as follows for the options granted in the respective of the current and preceding financial year.

| Grant date                                          | 25 June<br>2015 | 25 June<br>2015 | 25 June<br>2015 |
|-----------------------------------------------------|-----------------|-----------------|-----------------|
| Share price at grant date (pence)                   | 13.00           | 13.00           | 13.00           |
| Exercise price (pence)                              | 0.001           | 0.001           | 0.001           |
| Number of employees                                 | 3               | 3               | 24              |
| Shares under option                                 | 6,789,462       | 2,909,769       | 2,510,994       |
| Vesting period (years)                              | 3               | 3               | 3               |
| Expected volatility                                 | 30.0%           | 30.0%           | 30.0%           |
| Option life (years)                                 | 7               | 7               | 7               |
| Expected life (years)                               | 3               | 3               | 3               |
| Risk free rate                                      | 1.20%           | 1.20%           | 1.20%           |
| Expected dividends expressed as a dividend of yield | 0.0%            | 0.0%            | 0.0%            |
| Expectation of options vesting at 31 December 2014  | n/a             | n/a             | n/a             |
| Expectation of options vesting at 31 December 2015  | 100%            | 100%            | 90%             |
| Expectations of meeting performance criteria        | n/a             | 80%             | 80%             |
| Market conditions                                   | Yes             | No              | No              |
| Fair value per option (pence)                       | 4.11            | 13.00           | 13.00           |

A reconciliation of option movements over the year to 31 December 2015 is shown below.

|                            | 2015        |                                         | 2014        |                                         |
|----------------------------|-------------|-----------------------------------------|-------------|-----------------------------------------|
|                            | Number      | Weighted average exercise price (pence) | Number      | Weighted average exercise price (pence) |
| Outstanding at 1 January   | 23,750,000  | 8.55                                    | 24,125,000  | 8.35                                    |
| Granted                    | 12,210,225  | 0.00                                    | 1,400,000   | 12.38                                   |
| Forfeited                  | (50,000)    | 6.25                                    | (1,475,000) | 9.01                                    |
| Exercised                  | (7,750,000) | 7.39                                    | (300,000)   | 7.58                                    |
| Outstanding at 31 December | 28,160,225  | 5.17                                    | 23,750,000  | 8.55                                    |
| Exercisable at 31 December | 4,200,000   | 7.18                                    | 12,000,000  | 7.31                                    |

|                                  | 2015                                    |                  |                                          |             | 2014                                    |                  |                                         |             |
|----------------------------------|-----------------------------------------|------------------|------------------------------------------|-------------|-----------------------------------------|------------------|-----------------------------------------|-------------|
| Range of exercise prices (pence) | Weighted average exercise price (pence) | Number of shares | Weighted average remaining life (years): |             | Weighted average exercise price (pence) | Number of shares | Weighted average remaining life (years) |             |
|                                  |                                         |                  | Expected                                 | Contractual |                                         |                  | Expected                                | Contractual |
| >0.00–5.00                       | 0.28                                    | 13,010,225       | 3.02                                     | 9.10        | 4.63                                    | 850,000          | 0.25                                    | 4.25        |
| >5.00–20.00                      | 9.36                                    | 15,150,000       | 3.04                                     | 6.98        | 8.70                                    | 22,900,000       | 2.24                                    | 6.13        |
| >20.00                           | —                                       | —                | —                                        | —           | —                                       | —                | —                                       | —           |

During the year 7,750,000 share options have been exercised (2014: 300,000) as outlined in note 21.

The total charge for the year, pre-deferred tax, relating to employee share-based payment plans was £366,000 (2014: £90,000), post-deferred tax, the net charge was £502,000 (2014: £53,000). All charges related to equity-settled share-based payment transactions.

### 23. Share premium account

|                                               | Group         |               | Company       |               |
|-----------------------------------------------|---------------|---------------|---------------|---------------|
|                                               | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| At 1 January                                  | 7,784         | 7,768         | 7,784         | 7,768         |
| Placing of shares                             | 3,766         | 16            | 3,766         | 16            |
| Issue to satisfy shares options (see note 21) | (75)          | —             | (75)          | —             |
| <b>At 31 December</b>                         | <b>11,475</b> | <b>7,784</b>  | <b>11,475</b> | <b>7,784</b>  |

### 24. Other reserves

| Group                               | Merger<br>reserve<br>£'000 | Other<br>reserve<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Special<br>reserve<br>£'000 | Translation<br>reserve<br>£'000 | Total<br>£'000 |
|-------------------------------------|----------------------------|---------------------------|-------------------------------------------|-----------------------------|---------------------------------|----------------|
| Balance at 1 January 2014           | 1,267                      | 1,136                     | 5                                         | 10,788                      | (2)                             | 13,194         |
| Reclassification of special reserve | —                          | —                         | —                                         | (10,788)                    | —                               | (10,788)       |
| Currency translation adjustments    | —                          | —                         | —                                         | —                           | 38                              | 38             |
| Balance at 31 December 2014         | 1,267                      | 1,136                     | 5                                         | —                           | 36                              | 2,444          |
| Balance at 1 January 2015           | 1,267                      | 1,136                     | 5                                         | —                           | 36                              | 2,444          |
| Currency translation adjustments    | —                          | —                         | —                                         | —                           | (22)                            | (22)           |
| <b>Balance at 31 December 2015</b>  | <b>1,267</b>               | <b>1,136</b>              | <b>5</b>                                  | <b>—</b>                    | <b>14</b>                       | <b>2,422</b>   |

| Company                             | Merger<br>reserve<br>£'000 | Other<br>reserve<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Special<br>reserve<br>£'000 | Total<br>£'000 |
|-------------------------------------|----------------------------|---------------------------|-------------------------------------------|-----------------------------|----------------|
| Balance at 1 January 2014           | 1,267                      | 1,136                     | 5                                         | 10,788                      | 13,196         |
| Reclassification of special reserve | —                          | —                         | —                                         | (10,788)                    | (10,788)       |
| Balance at 31 December 2014         | 1,267                      | 1,136                     | 5                                         | —                           | 2,408          |
| Balance at 1 January 2015           | 1,267                      | 1,136                     | 5                                         | —                           | 2,408          |
| <b>Balance at 31 December 2015</b>  | <b>1,267</b>               | <b>1,136</b>              | <b>5</b>                                  | <b>—</b>                    | <b>2,408</b>   |

#### Merger reserve

Under the provisions of the Companies Act, the premium on shares in the Company issued in consideration for the acquisition of subsidiaries, where an interest greater than 90% was acquired, has been credited to a merger reserve. The transactions giving rise to the merger reserve were the acquisitions during 1999 of Fairfield Imaging Limited (£700,000) and Cellpath plc (£567,000).

#### Other reserve

On 31 January 2001 the Court made an order confirming the reduction in the Company's share capital following a resolution to cancel the deferred shares in issue. The rights attaching to those deferred shares, which were not listed or quoted on any recognised stock exchange, were minimal thereby rendering them effectively valueless. The cancelled nominal value of the shares of £1,136,000 was credited to a non-distributable other reserve.

#### Capital redemption reserve

During 2003, 250,000 ordinary shares with a nominal value of £5,000 were bought by the Company and were used for the Company's Employee Benefit Trust ('EBT'). The consideration paid for the shares was debited to the EBT reserve. On 30 July 2004 the 250,000 shares were cancelled and the nominal value of the shares was credited to a capital redemption reserve.

# Notes to the Consolidated Financial Statements continued

## 24. Other reserves continued

### Special reserve

On 22 December 2008, the Court made an order approving the cancellation of the Company's share premium account which at that date stood at £32,284,000 (the 'capital reorganisation'). The deficit on the Company's profit and loss account was eliminated and the balance of £10,788,000 was credited to a special reserve. The special reserve may be distributed subject to discharging the obligations imposed by the Court. As at 31 December 2014, those obligations had been discharged and the special reserve was reclassified to the profit and loss reserve.

### Foreign currency translation reserve

As detailed in the Group Statement of Changes in Shareholders' Equity, at 31 December 2015 the Group had a foreign currency translation reserve surplus of £14,000 (2014 surplus of £36,000). As described in note 1, exchange differences arising on the translation of opening net assets and results of overseas operations are reported in the foreign currency translation reserve.

The Company has £nil (2014 £nil) foreign currency translation reserves.

## 25. Profit and loss reserve

|                                                 | Group         |               | Company       |               |
|-------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                 | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| <b>Retained earnings at 1 January</b>           | <b>8,950</b>  | (2,825)       | <b>12,457</b> | 799           |
| Profit for the year                             | <b>1,469</b>  | 934           | <b>474</b>    | 808           |
| Reclassification of special reserve             | —             | 10,788        | —             | 10,788        |
| Share option scheme – value of employee service | <b>502</b>    | 53            | <b>467</b>    | 62            |
| <b>Retained earnings at 31 December</b>         | <b>10,921</b> | 8,950         | <b>13,398</b> | 12,457        |

In accordance with the exemption allowed by section 401 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income.

## 26. Employees and Directors

|                                    | Group         |               | Company       |               |
|------------------------------------|---------------|---------------|---------------|---------------|
|                                    | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | 2014<br>£'000 |
| <b>Staff costs during the year</b> |               |               |               |               |
| Wages and salaries                 | <b>6,447</b>  | 5,976         | <b>785</b>    | 740           |
| Social security costs              | <b>629</b>    | 634           | <b>99</b>     | 81            |
| Pension costs (note 27)            | <b>288</b>    | 271           | <b>88</b>     | 74            |
| Share-based compensation           | <b>366</b>    | 90            | <b>259</b>    | 69            |
|                                    | <b>7,730</b>  | 6,971         | <b>1,231</b>  | 964           |
| Less amounts capitalised           | <b>(203)</b>  | (180)         | —             | —             |
|                                    | <b>7,527</b>  | 6,791         | <b>1,231</b>  | 964           |

|                                                          | Group          |                | Company        |                |
|----------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                          | 2015<br>Number | 2014<br>Number | 2015<br>Number | 2014<br>Number |
| <b>Average number of people employed during the year</b> |                |                |                |                |
| <b>By operating segment</b>                              |                |                |                |                |
| Laboratory Services                                      | <b>107</b>     | 92             | —              | —              |
| Products                                                 | <b>52</b>      | 54             | —              | —              |
| Central services                                         | <b>35</b>      | 39             | <b>8</b>       | 8              |
|                                                          | <b>194</b>     | 185            | <b>8</b>       | 8              |

|                                             | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------------------------|---------------|---------------|
| <b>Key management compensation</b>          |               |               |
| Salaries and short term employee benefits   | 1,315         | 1,068         |
| Compensation for loss of office             | —             | 122           |
| Pensions and other post-employment benefits | 120           | 96            |
| Share-based compensation                    | 317           | 81            |
|                                             | <b>1,752</b>  | <b>1,367</b>  |

The key management figures given above include Executive and Non-Executive Directors together with seven senior managers (2014 seven)

|                                                         | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------------------------------------|---------------|---------------|
| <b>Directors</b>                                        |               |               |
| Aggregate emoluments                                    | 760           | 581           |
| Compensation for loss of office                         | —             | 122           |
| Company contributions to money purchase pension schemes | 86            | 72            |
|                                                         | <b>846</b>    | <b>775</b>    |

At the year end three Directors (2014 three) have retirement benefits accruing under money purchase pension schemes.

## 27. Pension commitments

The Group operates a defined contribution pension scheme and makes payments to other, personal defined contribution pension scheme arrangements on behalf of certain employees. The charges in the year amounted to

|                              | 2015<br>£'000 | 2014<br>£'000 |
|------------------------------|---------------|---------------|
| <b>Group</b>                 |               |               |
| Defined contribution schemes | 288           | 271           |

The year end creditor amounted to £65,000 (2014 £93,000)

## 28. Financial instruments

Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities are not materially different to the carrying values shown in the Statement of Financial Position.

The following summarises the major methods and assumptions used in estimating the fair values of the financial instruments

### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date if the effect is material.

### Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date if the effect is material.

### Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

# Notes to the Consolidated Financial Statements continued

## **28. Financial instruments** continued

### *Fair value hierarchy*

Financial instruments carried at fair value are required to be measured by reference to the following levels

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There are no assets measured by a Level 1 valuation method

The derivative financial instruments have been measured by a Level 2 valuation method. The fair value of the interest rate swap at 31 December 2015 was £nil (31 December 2014 £20,000).

### *Credit risk*

#### *Financial risk management*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers

The Group has no significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence which is augmented with standard contractual terms and conditions where appropriate

#### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the reporting date was £8,832,000 (2014 £6,555,000) being the total of the carrying amount of financial assets

The maximum exposure to credit risk for trade receivables at the reporting date is disclosed in note 15

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly.

### *Liquidity risk*

#### *Financial risk management*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due

The Group maintains a mixture of cash balances and short to medium term treasury deposits designed to ensure that the Group had sufficient available funds for operations and planned capital expenditure. In addition, as referred to in note 18, the Group obtained a term loan facility in 2013 which was used to part fund the purchase of Vindon, and another term loan facility in August 2015 which was used to part fund the purchase of Select. To minimise the exposure to varying cash flows an interest rate swap was maintained to effectively fix some of the contracted cash flows. This expired at 31 December 2015. These facilities were replaced in March 2016 with a new bank debt facility.

The undiscounted contracted cash flows and maturities of financial liabilities together with their carrying amounts and average effective interest rates at the reporting date are detailed further in the tables overleaf

#### *Exposure to liquidity risk*

The Group has a contractual liability in relation to its bank loan which is scheduled to mature as described in note 18.

**As at 31 December 2015:**

| Group                                | Effective rate % | Carrying amount £'000 | Contractual cash flows |                       |                                   |                                     |
|--------------------------------------|------------------|-----------------------|------------------------|-----------------------|-----------------------------------|-------------------------------------|
|                                      |                  |                       | Total £'000            | Within one year £'000 | Over one year less than two £'000 | Over two years less than five £'000 |
| Non-derivative financial liabilities |                  |                       |                        |                       |                                   |                                     |
| Bank loans                           | 3.6              | 8,135                 | 8,622                  | 2,357                 | 5,251                             | 1,014                               |
| Trade payables                       | 0.0              | 3,644                 | 3,644                  | 3,644                 | —                                 | —                                   |
|                                      |                  | <b>11,779</b>         | <b>12,266</b>          | <b>6,001</b>          | <b>5,251</b>                      | <b>1,014</b>                        |

| Company                              | Effective rate % | Carrying amount £'000 | Contractual cash flows |                       |                                   |                                     |
|--------------------------------------|------------------|-----------------------|------------------------|-----------------------|-----------------------------------|-------------------------------------|
|                                      |                  |                       | Total £'000            | Within one year £'000 | Over one year less than two £'000 | Over two years less than five £'000 |
| Non-derivative financial liabilities |                  |                       |                        |                       |                                   |                                     |
| Bank loans                           | 3.6              | 8,135                 | 8,622                  | 2,357                 | 5,251                             | 1,014                               |
| Trade payables                       | 0.0              | 57                    | 57                     | 57                    | —                                 | —                                   |
|                                      |                  | <b>8,192</b>          | <b>8,679</b>           | <b>2,414</b>          | <b>5,251</b>                      | <b>1,014</b>                        |

**As at 31 December 2014**

| Group                                | Effective rate % | Carrying amount £'000 | Contractual cash flows |                       |                                   |                                     |
|--------------------------------------|------------------|-----------------------|------------------------|-----------------------|-----------------------------------|-------------------------------------|
|                                      |                  |                       | Total £'000            | Within one year £'000 | Over one year less than two £'000 | Over two years less than five £'000 |
| Non-derivative financial liabilities |                  |                       |                        |                       |                                   |                                     |
| Bank loans                           | 4.0              | 6,760                 | 7,239                  | 2,347                 | 1,726                             | 3,166                               |
| Finance leases                       | 3.7              | 118                   | 120                    | 120                   | —                                 | —                                   |
|                                      |                  | 6,878                 | 7,359                  | 2,467                 | 1,726                             | 3,166                               |
| Trade payables                       | 0.0              | 2,744                 | 2,744                  | 2,744                 | —                                 | —                                   |
| Derivative financial liabilities     |                  |                       |                        |                       |                                   |                                     |
| Interest rate swap                   | 1.0              | 20                    | —                      | —                     | —                                 | —                                   |
| – inflows                            | —                | —                     | (8)                    | (8)                   | —                                 | —                                   |
| – outflows                           | —                | —                     | 23                     | 23                    | —                                 | —                                   |
|                                      |                  | <b>9,642</b>          | <b>10,118</b>          | <b>5,226</b>          | <b>1,726</b>                      | <b>3,166</b>                        |

# Notes to the Consolidated Financial Statements continued

## 28. Financial instruments continued

| Company                              | Effective rate % | Carrying amount £'000 | Contractual cash flows |                       |                                   |                                     |
|--------------------------------------|------------------|-----------------------|------------------------|-----------------------|-----------------------------------|-------------------------------------|
|                                      |                  |                       | Total £'000            | Within one year £'000 | Over one year less than two £'000 | Over two years less than five £'000 |
| Non-derivative financial liabilities |                  |                       |                        |                       |                                   |                                     |
| Bank loans                           | 4.0              | 6,760                 | 7,239                  | 2,347                 | 1,726                             | 3,166                               |
| Finance leases                       | —                | —                     | —                      | —                     | —                                 | —                                   |
|                                      |                  | 6,760                 | 7,239                  | 2,347                 | 1,726                             | 3,166                               |
| Trade payables                       | 0.0              | 74                    | 74                     | 74                    | —                                 | —                                   |
| Derivative financial liabilities     | 1.0              | 20                    | —                      | —                     | —                                 | —                                   |
| Interest rate swap                   |                  |                       |                        |                       |                                   |                                     |
| – inflows                            | —                | —                     | (8)                    | (8)                   | —                                 | —                                   |
| – outflows                           | —                | —                     | 23                     | 23                    | —                                 | —                                   |
|                                      |                  | 6,854                 | 7,328                  | 2,436                 | 1,726                             | 3,166                               |

### Market risk

#### Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings in financial instruments.

The Group's operations expose it to a variety of financial risks that include foreign currency exchange rates, credit risks and interest rates. The Group has in place a risk management programme that continually assesses the potential adverse effects of these risks on the financial performance of the Group. Appropriate action is taken to mitigate the impact of such risks as necessary.

The Group does not have any material exposure to commodities price risk.

#### Foreign exchange risk

The Group is exposed to transactional foreign exchange risk on US Dollar and Euro revenues, purchases and cash balances held and translational foreign exchange risk with respect to the Euro and US Dollar net assets/(liabilities) of foreign subsidiaries. At the reporting date this exposure was not assessed as significant enough for the Group to enter into forward foreign exchange contracts to hedge any risk. This position is continually reviewed and appropriate hedging transactions will be entered into where deemed appropriate. The Group continued to hold Euro and US Dollar cash deposits to act as a hedge against foreign exchange transactional risk.

The most significant areas of the Group's exposure to transactional foreign currency risk is as follows:

|                               | Sterling £'000 | Euro £'000   | US Dollar £'000 | Total £'000  |
|-------------------------------|----------------|--------------|-----------------|--------------|
| <b>31 December 2015</b>       |                |              |                 |              |
| Trade receivables             | 4,187          | 409          | 319             | 4,915        |
| Cash and cash equivalents     | 2,904          | 991          | 532             | 4,427        |
| Trade payables                | (3,131)        | (77)         | (436)           | (3,644)      |
| <b>Balance sheet exposure</b> | <b>3,960</b>   | <b>1,323</b> | <b>415</b>      | <b>5,698</b> |
| <b>31 December 2014</b>       |                |              |                 |              |
| Trade receivables             | 3,496          | 327          | 234             | 4,057        |
| Cash and cash equivalents     | 1,463          | 822          | 318             | 2,603        |
| Trade payables                | (2,465)        | (104)        | (175)           | (2,744)      |
| <b>Balance sheet exposure</b> | <b>2,494</b>   | <b>1,045</b> | <b>377</b>      | <b>3,916</b> |

The Company does not have any significant exposure to transactional foreign currency risk.

### Sensitivity analysis

A 5% weakening of the following currencies against the pound sterling at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2014.

|           | Equity        |               | Profit or loss |               |
|-----------|---------------|---------------|----------------|---------------|
|           | 2015<br>£'000 | 2014<br>£'000 | 2015<br>£'000  | 2014<br>£'000 |
| Euro      | 60            | 71            | 68             | 55            |
| US Dollar | 66            | 69            | 22             | 20            |

A 5% strengthening of the above currencies against the pound sterling at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

The Group has both interest-bearing assets and liabilities and the Group's strategy is to minimise any exposure to adverse changes in interest rates on borrowing over the medium term. Surplus cash is invested in a combination of overnight and short term treasury deposits and advantage is taken of the best interest rates available.

The variable rate loans that were taken out to part fund the purchase of Vindon bear interest at LIBOR plus a margin of 2.75% and 3.50% respectively and the additional variable loan taken out to part fund the purchase of Select bears interest at LIBOR plus a margin of 3.25%. An interest rate swap bearing LIBOR existed over the period of the loans to effectively fix part of the interest at a rate of 1.53% but this expired at 31 December 2015. The new facility taken out in March 2016 remains a variable rate loan.

At the reporting date the profile of the Group's interest-bearing financial instruments was as follows:

|                                                                  | Group          |                | Company        |                |
|------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                  | 2015<br>£'000  | 2014<br>£'000  | 2015<br>£'000  | 2014<br>£'000  |
| Fixed rate                                                       |                |                |                |                |
| Fixed rate debt                                                  | —              | (118)          | —              | —              |
| Financial instruments                                            | —              | —              | —              | —              |
| <b>Total fixed rate</b>                                          | <b>—</b>       | <b>(118)</b>   | <b>—</b>       | <b>—</b>       |
| Variable rate                                                    |                |                |                |                |
| Variable rate debt                                               | (8,135)        | (6,760)        | (8,135)        | (6,760)        |
| Financial instruments                                            | —              | (20)           | —              | (20)           |
| <b>Total variable rate</b>                                       | <b>(8,135)</b> | <b>(6,780)</b> | <b>(8,135)</b> | <b>(6,780)</b> |
| <b>Total interest-bearing net debt and financial instruments</b> | <b>(8,135)</b> | <b>(6,898)</b> | <b>(8,135)</b> | <b>(6,780)</b> |

### Sensitivity analysis

A change of 1% in interest rates would have no effect on equity, the impact on the profit or loss for the year would have been to decrease results by £74,000 (2014: £63,000).

### Capital risk management

The Group's objective when managing capital is to maintain a strong capital base (total equity) to safeguard the ability to continue as a going concern and to maintain investor, creditor and market confidence to sustain the future development of the business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions or business needs. In previous years the Group has operated with negligible debt and has had surplus cash balances which it has utilised to make acquisitions and invest in the organic growth of the business. In 2011 the capital structure changed with the introduction of bank debt.

# Notes to the Consolidated Financial Statements continued

## 28. Financial instruments continued

to part fund the purchase of the Group's Head Office premises with further funding in 2013 to part fund the purchase of Vindon and 2015 to part fund the purchase of Select. The level of net debt however remains modest and the Group will continue to maintain an appropriate balance between the advantages and security provided by a sound capital position and the higher returns that might be possible with higher levels of borrowings.

The table below presents the quantitative data for the components the Group manages as capital

|                     | 2015<br>£'000 | 2014<br>£'000 |
|---------------------|---------------|---------------|
| Shareholders' funds | 31,804        | 25,449        |
| Finance leases      | —             | 118           |
| Bank loans          | 8,135         | 6,760         |
|                     | <b>39,939</b> | <b>32,327</b> |

## 29. Operating lease commitments – minimum lease payments

| Group                                              | 2015<br>£'000 | 2014<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Commitments under non-cancellable operating leases |               |               |
| Property                                           |               |               |
| — within one year                                  | 290           | 232           |
| — later than one year and less than five years     | 489           | 499           |
| Other                                              |               |               |
| — within one year                                  | 16            | —             |
| — later than one year and less than five years     | 37            | —             |

The Group leases laboratory and distribution facilities under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

There were no significant commitments under non-cancellable operating leases in the Company.

## 30. Financial commitments

### Group

Contracted, but not provided, capital commitments as at 31 December 2015 were £nil (2014: £nil).

### Company

The Company had no capital commitments as at 31 December 2015 (31 December 2014: nil).

## 31. Contingent liabilities

### Company

Under the terms of the Group's current banking facilities, the Company was liable for the repayment and discharge of all monies owing in respect of the bank borrowings of certain subsidiary undertakings. At 31 December 2015 this amounted to £nil (2014: £nil).

## 32. Related party disclosures

The aggregated balances with subsidiaries are shown in notes 15 and 17. These amounts are all due within one year and only certain balances bear interest. There are no material sales to, or purchases from, subsidiary companies. The aggregated balances with subsidiaries have arisen from corporate acquisition or disposal activities by the Company and Group, together with recharges of Group personnel costs and legal and professional fees incurred by the Company.

Key management compensation is disclosed in note 26.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Source BioScience plc ('the Company') will be held at 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX on 9 June 2016 at 10 30am for the following purposes and all resolutions will be proposed as ordinary resolutions save for resolutions 7, 8 and 9 which will be proposed as special resolutions

- 1 To receive and approve the Company's annual accounts for the financial year ended 31 December 2015 together with the Directors' Report (including the Strategic Report) and the Auditor's Report
- 2 To receive and approve the Annual Report on Remuneration in the form set out in the Directors' Report on Remuneration in the Company's Annual Report and Accounts for the financial year ended 31 December 2015 (pages 49 to 59 of the 2015 Annual Report and Accounts)
- 3 To re-elect Mr Turnbull, who retires by rotation pursuant to the Articles of Association of the Company and provision B 7 1 of the UK Corporate Governance Code and who, being eligible, offers himself for re-election as a Director
- 4 To elect Mr Jackson-Smith, who was appointed as a Director during the year (for biographical details please see page 25)
- 5 To appoint KPMG LLP as auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the Directors to fix their remuneration.
- 6 That, pursuant to section 551 of the Companies Act 2006 (the 'Act') the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities
  - a) comprising equity securities (as defined in section 560(1) of the Act) up to an aggregate nominal amount of £6,419,995 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph 6(b) of this resolution) in connection with a rights issue (as defined in the Listing Rules published by the Financial Conduct Authority)
    - i to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, and
    - ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange, and
  - b) otherwise than pursuant to paragraph 6(a) of this resolution, up to an aggregate nominal amount of £3,209,998 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph 6(a) of this resolution in excess of £3,209,998), provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, on the date 15 months from the date of the passing of this resolution (whichever is the earlier), save that, in each case, the Company may make an offer or agreement before the authority expires which would or might require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired

In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company, a reference to the allotment of Relevant Securities includes the grant of such a right, and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right

These authorities are in substitution for and shall replace all existing authorities (which, to the extent unused at the date of this resolution, are revoked with immediate effect)

# Notice of Annual General Meeting continued

- 7 That, subject to the passing of resolution 6 above, and pursuant to section 570 of the Act, the Directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authorities granted by resolution 6 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited
- a) to the allotment of equity securities in connection with an offer of equity securities (but, in the case of an allotment pursuant to the authority granted by paragraph 6(a) of resolution 6, such power shall be limited to the allotment of equity securities in connection with a rights issue (as defined in the Listing Rules published by the Financial Conduct Authority))
    - i. to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, and
    - ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange, and
  - b) in the case of an allotment pursuant to the authority granted by paragraph 6(b) of resolution 6, to the allotment of equity securities (otherwise than pursuant to paragraph 7(a) of this resolution) up to an aggregate nominal amount of £698,585, representing approximately 10% of the current share capital of the Company, and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date 15 months from the date of the passing of this resolution (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired

This power is in substitution for and shall replace all existing powers (which, to the extent unused at the date of this resolution, are revoked with immediate effect)

- 8 That, for the purposes of section 701 of the Act, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") provided that
- a) the maximum number of Ordinary Shares which may be purchased is 34,929,244 (representing 10% of the Company's current share capital),
  - b) the minimum price which may be paid for each Ordinary Share is 2p,
  - c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Office List of the London Stock Exchange plc for the five business days immediately preceding the day on which the Ordinary Share in question is purchased,
  - d) unless previously revoked, varied or renewed, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date 15 months from the date of the passing of this resolution (whichever is the earlier), and
  - e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which contract or contracts will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.
- 9 That, as permitted by section 307A of the Act any general meeting of the Company (other than an Annual General Meeting of the Company) shall be called by notice of not less than 14 clear days in accordance with the provisions of the Articles of Association of the Company provided that the authority of this resolution shall expire at the conclusion of the next Annual General Meeting of the Company

By order of the Board



**Dr Nick Ash**  
Company Secretary  
26 April 2016

Registered office

1 Orchard Place  
Nottingham Business Park  
Nottingham NG8 6PX

## Notes

1. A member of the Company entitled to attend and vote at the meeting convened by this Notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. You may not appoint more than one proxy to exercise rights attaching to any one share. A proxy need not be a member of the Company.
2. A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the office of the Company's Registrar, Equiniti, at Aspect House, Spencer Road, Lancing BN99 6DA no later than 48 hours before the start of the meeting. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.  
You may, if you wish, register the appointment of proxy electronically by logging on to [www.sharevote.co.uk](http://www.sharevote.co.uk). To use this service you will need your Voting ID, Task ID and Shareholder Reference Number, printed on the proxy form. Full details of the procedure are given on the website.
3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating their intention to revoke their proxy appointment and deposit it at the office of the Company's Registrar, Equiniti, at Aspect House, Spencer Road, Lancing BN99 6DA no later than 48 hours before the start of the meeting.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST manual (available via [www.euroclear.com](http://www.euroclear.com)). CREST personal members or other CREST sponsored members, and those CREST sponsors who have appointed a voting service provider(s), should refer to their CREST sponsors or voting service providers, who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (CREST Proxy Instruction) must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited (Euroclear UK & Ireland) and must contain the information required for such instructions as described in the CREST manual (available via [www.euroclear.com](http://www.euroclear.com)). The message must be transmitted so as to be received by the Company's agent (ID RA19) by the latest time for receipt of proxy appointments specified in the Notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
6. CREST members and, where applicable, their CREST sponsors and voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

# Notice of Annual General Meeting continued

- 8 Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation, provided that they do not do so in relation to the same shares. A certified copy of the Board resolution of the corporation appointing the relevant person as the representative of that corporation in connection with the meeting must be deposited at the office of the Company's Registrar prior to the commencement of the meeting.
- 9 The right to vote at the meeting shall be determined by reference to the register of members of the Company. Only those persons whose names are entered on the register of members of the Company at 6pm on 7 June 2016, or, if the meeting is adjourned, at 6pm on the date falling two days prior to the date of the adjourned meeting, shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after the times specified above shall be disregarded in determining the rights of any person to attend and/or vote at the relevant meeting.
10. Completion of the proxy form does not preclude attendance at the meeting. If you wish to attend the meeting in person, only those persons whose names are entered on the register of members of the Company at 6pm on 7 June 2016 or, if the meeting is adjourned, at 6pm on the date falling two days prior to the date of the adjourned meeting, shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after the times specified above shall be disregarded in determining the rights of any person to attend and/or vote at the relevant meeting.
- 11 Members who wish to communicate with the Company by electronic means in connection with the matters set out in this Notice may do so by contacting the Company at [companysecretary@sourcebioscience.com](mailto:companysecretary@sourcebioscience.com) on or before 6pm on 8 June 2016.
- 12 It is not permissible to use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.
- 13 As at 12 00pm on 26 April 2016, the Company's issued share capital comprised 349,292,449 ordinary shares of 2p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 12 00pm on 26 April 2016 is 349,292,449.
- 14 Copies of the service contracts and letters of appointment of the Directors of the Company will be available at the place of the meeting:
  - 14.1 for at least 15 minutes prior to the meeting, and
  - 14.2 during the meeting.
15. If you are a person who has been nominated under section 146 of the Act to enjoy information rights (a 'Nominated Person') you may, under an agreement between you and the member of the Company who has nominated you, have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If you do not have such a proxy appointment right, or you do but do not wish to exercise it, you may have a right to give instructions to the member who has nominated you as to the exercise of voting rights. If you are a Nominated Person, the statements of the rights of members in relation to notes 1 to 11 above do not apply. The rights described in those notes can only be exercised by a registered member of the Company.
16. The information which the Company is required to publish in advance of the meeting by virtue of section 311A of the Act can be accessed via [www.sourcebioscience.com](http://www.sourcebioscience.com).
17. Subject to the provisions of section 319A of the Act, at the meeting the Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting. An answer need not be given if:
  - 17.1 answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information,
  - 17.2 the answer has already been given on a website in the form of an answer to a question, or
  - 17.3 it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- 18 Subject to the provisions of sections 338 and 338A of the Act, members representing at least 5% of the total voting rights of all members (or at least 100 members who have the right to vote at the meeting and who hold shares on which there has been paid up an average sum per member of at least £100) may:
  - 18.1 require the Company to give, to members of the Company entitled to receive notice of the Annual General Meeting, notice of a resolution which may properly be moved and is intended to be moved at that meeting, and
  - 18.2 request the Company to include in the business to be dealt with at the Annual General Meeting any matter (other than a proposed resolution) which may properly be included in the business.

19 Subject to the provisions of Chapter 5 of Part 16 of the Act, members representing at least 5% of the total voting rights of all members (or at least 100 members who have the right to vote at the meeting and who hold shares on which there has been paid up an average sum per member of at least £100) may require the Company to publish on a website a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting. Where the Company is required to publish such a statement on its website

19.1 it may not require the members making the request to pay any expenses incurred by the Company in complying with the request,

19.2 it must forward the statement to the Company's auditor no later than the time the statement is made available on the Company's website, and

19.3 the statement may be dealt with as part of the business of the meeting.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent advisor authorised under the Financial Services and Markets Act 2000

If you have sold or transferred all of your shares in the Company, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares

## Explanatory Notes to the Notice of Annual General Meeting

### Resolution 1 — Annual Report and Accounts

This is a standard resolution common to all Annual General Meetings

### Resolution 2 — Annual Report and Accounts

The Directors' Report on Remuneration in the 2015 Annual Report and Accounts contains

- the Annual Statement, as in previous years, by Mrs Liversidge, Chairman of the Remuneration Committee
- the Annual Report on Remuneration which sets out payments made during the financial year ended 31 December 2015 and explains how the Remuneration Policy will be implemented in 2016

Mrs Liversidge's Annual Statement and the Annual Report on Remuneration are set out on pages 37 to 38 and 49 to 59. As in previous years this is subject to an advisory vote by ordinary resolution (resolution 2).

### Resolutions 3 to 4 — Election of Directors

The following Director will stand for re-election in accordance with the UK Corporate Governance Code

- Mr Turnbull

The following Director will stand for election, this being their first Annual General Meeting since appointment

- Mr Jackson-Smith

Each of the above Directors have indicated their willingness to offer themselves for election. The Board, having considered the mix of skills, knowledge and experience of the Directors confirms that each Director continues to perform their duties effectively, showing integrity and high ethical standards whilst maintaining sound, independent judgement in respect of all decisions taken at both Board and, where applicable, Committee level

Biographical details for each of the Directors are located on page 25 of the 2015 Annual Report and Accounts

# Notice of Annual General Meeting continued

## Resolution 5 — Appointment of auditor

The Company is required to appoint an auditor at each meeting at which accounts are presented. KPMG LLP have indicated their willingness to be appointed to office. Accordingly, resolution 5, subject to the approval of the shareholders of the Company, appoints KPMG LLP as auditor of the Company and authorises the Directors to determine the remuneration of the auditor.

## Resolution 6 — Directors' power to allot relevant securities

Generally, the Directors may only allot shares in the Company (or grant rights to subscribe for, or to convert any security into, shares in the Company) if they have been authorised to do so by shareholders.

In line with guidance issued by the Investment Association, if passed, part one of resolution 6 in paragraph 6(a) will authorise the Directors to allot ordinary shares in the Company (and to grant rights to subscribe for, or to convert any security into, ordinary shares in the Company) in connection with a rights issue only up to an aggregate nominal amount of £6,419,995 (as reduced by the aggregate nominal amount of any shares allotted or rights granted under paragraph 6(b) of resolution 6). This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital of the Company as at 26 April 2016, being the last practicable date before the publication of this document. The Directors intend to follow emerging best practice as regards the use of this authority, including as to the requirement for Directors to stand for re-election.

If passed, part two of resolution 6 in paragraph 6(b) will authorise the Directors to allot shares in the Company (and to grant rights to subscribe for, or to convert any security into, shares in the Company) up to an aggregate nominal amount of £3,209,998 (as reduced by the aggregate nominal amount of any shares allotted or rights granted under paragraph 6(a) of resolution 6 in excess of £3,209,998). This amount (before any reduction) represents approximately one-third of the issued ordinary share capital of the Company as at 26 April 2016, being the last practicable date before the publication of this document.

If given, these authorities will expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of the resolution (whichever is earlier). It is the Directors' intention to renew the allotment authority each year. The Directors have no current intention to exercise either of the authorities sought under resolution 6. However, the Directors consider that it is in the best interests of the Company to have the authorities available so that they have the maximum flexibility permitted by institutional shareholder guidelines to allot shares or grant rights without the need for a general meeting should they determine that it is appropriate to do so to respond to market developments or to take advantage of business opportunities as they arise.

## Resolution 7 — Disapplication of pre-emption rights on equity issues for cash

Resolution 7, if passed, would enable the Directors to allot shares for cash on a non pre-emptive basis in limited circumstances. It is proposed to authorise the Directors to issue shares for cash up to an aggregate nominal amount of £698,585 (which represents approximately 10% of the Company's issued share capital as at 26 April 2016), without having to first offer them to shareholders in proportion to their existing holdings. In addition, in accordance with normal practice, the resolution would enable the Board to deal with overseas shareholders and fractional entitlements as it thinks fit in the context of any rights issue or open offer.

This disapplication authority is in line with institutional shareholder guidance, and in particular with the Pre-emption Group's Statement of Principles (the 'Pre-emption Principles').

The Pre-emption Principles were revised in March 2015 to allow the authority for an issue of shares for cash otherwise than in connection with a pre-emptive offer to be increased from 5% to 10% of the Company's issued ordinary share capital, provided that the Company confirms that it intends to use the additional 5% authority only in connection with an acquisition or specified capital investment. The Directors therefore confirm, in accordance with the Pre-emption Principles, that to the extent that the authority in part two of Resolution 7 in paragraph 7(b) (that is the authority to allot equity securities with a nominal amount of up to £698,585) is used for an issue of ordinary shares with a nominal value in excess of £349,242 (that is 5% of the Company's issued ordinary share capital as at 26 April 2016), it intends that it will only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of the resolution (whichever is earlier). It is the Directors' intention to renew this authority each year.

There are no present plans to exercise this authority.

### Resolution 8 — Market purchases of own shares

A company may only purchase its own shares by either an off-market purchase, in pursuance of a contract approved in advance in accordance with section 694 of the Act or by a market purchase, authorised in accordance with section 701 of the Act. A 'market purchase' is one made through a 'recognised investment exchange'. Although the Act only requires an ordinary resolution, LR12.4.7 of the Listing Rules requires the resolution to be passed as a special resolution (the Investment Association also recommends that the resolution should be passed as a special resolution). This resolution 8 authorises market purchases of the Company's own shares to be made but only within the limitations specified. In accordance with Investment Association guidelines the maximum number of shares purchased under this authority must not exceed 10% of the Company's current share capital. The resolution also states the maximum and minimum prices which may be paid, being no more than 5% above the average market value of the Company's shares for the five business days prior to the purchase. As recommended by the Investment Association the Company renews this authority on an annual basis at each Annual General Meeting.

The Directors have no current intention of exercising this authority to purchase the Company's ordinary shares. The Company will only exercise this authority to make such a purchase in the market if the Directors consider it is in the best interests of the shareholders generally to do so.

The Company is permitted to hold shares it has purchased in treasury, as an alternative to cancelling them. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy options exercised under any of the Company's share schemes. Whilst held in treasury, the shares are not entitled to receive any dividend or dividend equivalent (apart from any issue of bonus shares) and have no voting rights. The Directors believe it is appropriate for the Company to have the option to hold its own shares in treasury if, at a future date, the Directors exercise this authority. The Directors will have regard to investor group guidelines which may be in force at the time of any such purchase, holding or re-sale of shares held in treasury.

If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or 15 months after the passing of the resolution (whichever is earlier). It is the Directors' intention to renew this authority each year.

### Resolution 9 — Notice period of 14 days for general meetings

The shareholders of the Company approved a resolution to call general meetings (other than Annual General Meetings) on 14 clear days' notice at last year's Annual General Meeting. Resolution 9 seeks approval to renew this right until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed.

The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole and the matter to be considered is time sensitive. The Company meets the requirements for electronic voting under the Directive.

# Glossary

## Antibodies

Proteins that are found in blood or other bodily fluids, they are naturally used by the immune system to identify and neutralise foreign objects, such as bacteria and viruses. Experimentally, antibodies can be labelled with a detectable 'tag' and then used as highly specific probes for identifying proteins of interest in tissues. A wide range of antibodies with a large variety of cellular targets is available to research scientists through distributors such as Source BioScience.

## B-RAF

The B-RAF gene encodes a signalling protein. Mutations of the BRAF gene are quite common in melanoma and colorectal cancer. In colorectal cancer, such mutations make a tumour resistant to inhibitors of the EGFR signalling pathway.

## Batch Release Testing

GMP conformance testing of each batch of a finished marketed product, against an approved specification.

## Bioinformatics

The application of information technology, and computer science, to the field of molecular biology. Common activities in bioinformatics include mapping and analysing DNA and protein sequences, aligning different DNA sequences to compare them and handling and analysing huge data sets generated by the latest genomic technologies.

## Biomarkers

Biomarkers often refer to substances found in blood, urine or tissue, changes in which may be used to indicate presence of disease or response to treatment. More generally the term biomarker refers to any molecule that can be used to monitor a particular cellular process and may be a protein, DNA or RNA molecule.

## Bio-Repository

A biological materials repository that collects, processes, stores and distributes bio-specimens to support future scientific investigation.

## Blood Bank

A cache or bank of blood components, gathered as a result of blood donation or collection, stored and preserved for later use.

## Blood Group Serology Reagents

A group of reagents which are used to test for the presence or absence of certain proteins in the blood and determine the blood group.

## Capillary Electrophoresis DNA Sequencing (also known as Sanger sequencing or conventional sequencing)

DNA sequences are determined using a chemical reaction that results in an array of products that terminate in a different fluorescent coloured dye, which vary in size by one nucleotide. The products are separated, like the rungs of a ladder, by passing them through a capillary with an electric current and determining the order in which they emerge. This method remains the best way of inexpensively analysing large numbers of small sets of samples (see also Next Generation DNA Sequencing below).

## Care Quality Commission ('CQC')

As a provider of healthcare laboratory and pathology services to the NHS, which is a regulated activity under the Health and Social Care Act 2008, we are required to be registered with the CQC, a government body established to regulate and inspect health and social care services in England, and ensure organisations maintain good standards and follow appropriate procedures.

## Chromo2™

Chromo2™ is the latest, state of the art gene chip used to test human DNA samples and map ancestry. The gene chip contains more than 15,000 Y chromosome markers, more than 3,000 mtDNA markers and over 250,000 autosomal markers, as well as 33 redhead variants in the MC1R gene.

## Chromatography

A process in which a chemical mixture carried by a liquid (for example in high performance liquid chromatography/HPLC) or a gas is separated into components as a result of differential distribution of the solutes as they flow around or over a stationary liquid or solid phase.

## Circulating Tumour Cells ('CTC')

The identification of small numbers of cancer cells circulating in the blood has been shown to be of potential prognostic significance in breast cancer, colorectal or prostate cancer, and useful for monitoring response to drug therapy.

## Clinical Pathology Accreditation ('CPA')

CPA is the accreditation body for clinical pathology services in the UK. Accreditation involves audit of the ability of a laboratory to provide a service of high and consistent quality by declaring a defined standard of practice, which is performed by the CPA accreditation body.

The CPA standard is being phased out and superseded by the international standard ISO 15189.

## Clone

A section of DNA sequence, such as a gene, that is isolated from an organism and can be endlessly replicated by genetic engineering techniques

## Clone Libraries

A clone library is a collection of clones containing complementary DNA ('cDNA') (see below) and is often intended to represent the genes that are expressed within a given cell or tissue type at a given period.

## Companion Diagnostic

A test based on a biomarker (which might be a protein, DNA or RNA molecule), the presence or absence of which is associated with the likely efficacy of a drug or other treatment. Companion diagnostics are useful in stratifying patients into groups which are known to respond in a particular way to a drug. A good example of such a test from the Source BioScience breast cancer portfolio is the HER2 test, which assesses levels of the HER2 protein, expression of which is correlated with response to Herceptin™.

## Cryobank

A bank of cells or whole tissues which are stored at sub-zero temperatures to reduce the amount of chemical reactivity in order to preserve them. At Source BioScience the cryobank operates at minus 196°C using liquid nitrogen storage facilities.

## CYP2D6

Breast cancer patients with certain genetic variations in the CYP2D6 gene may be slow metabolisers of the drug tamoxifen to its active metabolite endoxifen. In this case changes to the treatment regime may be indicated because the efficacy of the drug is reduced.

## Deoxyribo Nucleic Acid (DNA) and complementary DNA (cDNA)

DNA is a large, complex molecule which, by virtue of a unique sequence of building blocks, contains all the genetic information required to create a cell or organism. cDNA can be made from all the genes in a genome, from a single gene, or from part of a gene. cDNA is DNA that has been synthesised artificially using an RNA template (see below) from the gene(s) selected.

## Dissolution Testing

A process routinely used to provide critical *in vitro* drug release information for both quality control purposes, for example to assess batch-to-batch consistency of tablets, and drug development for example to predict *in vivo* drug release profiles.

## Duty of Care Review

An audit of a specific pathologist's practice. Pathology departments have a duty of care to patients whose treatment or clinical management may need to be changed in the light of revised opinions arising from a review of a pathologist's or team's work. Where good practice is suspected to have broken down it may be necessary to arrange a systematic review of cases to fulfil a department's duty of care to their patients. Source BioScience offers a full duty of care review service to pathology departments that need specialist second opinion in these circumstances.

## EGFR Mutation Testing

Human EGFR is a cellular transmembrane receptor found on the surface of cells. Clinicians wishing to prescribe gefitinib (Iressa™) for lung cancer patients are required to confirm the presence of a number of mutations found in the tyrosine kinase domain on the EGFR gene.

## US Food and Drug Administration ('FDA')

The FDA is an agency of the US Department of Health and Human Services and is responsible for protecting the public health by assuring the safety, efficacy and security of human and veterinary drugs, biological products, medical devices, cosmetics and items that emit radiation.

## Fluorescence *in situ* Hybridisation ('FISH')

*In situ* hybridisation ('ISH') is a powerful technique, not unlike immunohistochemistry (below), for visualising the presence of specific sequences of DNA or RNA in cells. The technique uses short synthetic sequences of DNA or RNA which will bind, or hybridise, to the tissue with high specificity for the DNA or RNA of interest within the issue. Fluorescent 'tags' are attached to these synthetic sequences, allowing them to be visualised with a special microscope, even when present at very low levels.

## FocalPoint™

An automated imaging system for screening SurePath™ liquid based cytology slides. Using complex algorithms it interprets the images of each slide using the same morphologic features used during screening with the human eye. It can archive up to 25% of cases as requiring "no further review" ('NFR') which then do not need to be manually primary screened.

## Genetic Ancestry or Genealogy

The use of genetic analysis to help determine the journey of our ancient ancestors from their origins to the current day. Source BioScience uses the Chromo2™ gene chip (above) for such analysis.

# Glossary continued

## **GenomeCUBE®**

Source BioScience's proprietary database, search engine and e-commerce tool for Life Science products. GenomeCUBE® contains over 20 million clones and over 100,000 antibodies all of which contain downloadable annotation. GenomeCUBE® is available in foreign language and foreign currency versions.

## **Genomics**

The study of an organism's genome, where the genome of an organism is its whole hereditary information and is encoded in the DNA (see above) and RNA (see below). This includes both the genes and the non-coding sequences of the DNA.

## **Genomic Products and Reagents**

In this instance, DNA or RNA extracted and purified from a range of species and provided in a variety of forms for research purposes.

## **Genotyping and Sequencing**

DNA sequencing is the process of precisely determining the order of the building blocks, or nucleotides, of an organism's DNA. The method can be used to determine short sequences of DNA or, in larger experiments, to sequence the entire genome of an organism. Genotyping, in turn, is the process whereby DNA is characterised and then compared to reference data or, if large numbers of samples are genotyped, the data can be examined for patterns which might lead to discoveries of the fundamental causes of inherited diseases. Genotyping is commonly performed by PCR (below) or DNA sequencing.

## **Good Clinical Practice ('GCP')**

GCP is an international ethical and scientific quality standard for designing, conducting, recording and reporting clinical trials that involve the participation of human subjects. Compliance with this standard provides public assurance that the rights, safety and well-being of trial subjects are protected, consistent with principles that have their origin in the Declaration of Helsinki. Compliance with the principles of GCP is assured via monitoring by the MHRA.

## **Good Laboratory Practice ('GLP')**

GLP is a set of principles that provides a framework within which laboratory studies are planned, performed, monitored, recorded, reported and archived. These studies are undertaken to generate data by which the hazards and risks to users can be assessed for pharmaceuticals (only preclinical studies). GLP helps assure regulatory authorities that data submitted is a true reflection of the results obtained during the study and can therefore be relied upon when making risk/safety assessments. Compliance with the principles of GLP is assured via monitoring by the MHRA.

## **Good Manufacturing Practice ('GMP')**

GMP is that part of Quality Management which ensures that products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the Marketing Authorisation, Clinical Trial Authorisation or product specification. GMP ensures that medicinal products do not place patients at risk due to inadequate safety, quality or efficacy. Compliance with the principles of GMP is assured via monitoring by the MHRA.

## **Haplogroup**

A haplogroup is a group of related ancestral lineages which share a common ancestor. Haplogroups are defined by SNP markers.

## **Human Epidermal Growth Factor Receptor 2 (HER2)**

HER2 is a protein the over-expression of which within a breast or gastric/gastro-oesophageal tumour sample may indicate a patient is suitable for treatment with Herceptin™. A test for such over-expression is carried out on all new breast cancer patients or patients with advanced stomach cancer.

## **Human Papilloma Virus ('HPV')**

HPV is a family of viruses that commonly infect human tissues. Several members of this family in particular genotype 16 & 18 are sexually transmitted and persistent infection with these subtypes plays a key role in the development of cervical intraepithelial neoplasia (CIN) and invasive cancer of the cervix. HPV infection is also associated with other cancers, including those of the head and neck.

## **Histopathology**

The study of changes in tissues and cells as a consequence of some disease or toxic processes.

## **Human Tissue Authority ('HTA')**

The HTA licenses organisations that store and use human tissue for purposes such as research, patient treatment, post-mortem examination, teaching and public exhibitions. The HTA also inspect organisations to check that they maintain good standards and follow appropriate procedures against the legislation of the Human Tissue Act 2004.

## **ICH Tripartite Guidelines**

Guidelines created by the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use ('ICH') to promote good clinical practice.

### Immunohistochemistry ('IHC')

IHC is a technique for visualising proteins and other molecules in thin sections of tissue. This technique uses antibodies raised in other species against the protein of interest as a tool, and exploits their exquisite sensitivity and specificity for binding to that protein

### ISO9001

ISO9001 is a universal quality management system which Source BioScience holds across all aspects of its business

### Just Between Us™ ('JBU')

JBU is Source BioScience's online sexually transmitted infection ('STI') testing service. In addition to testing services, JBU provides an online prescription service and works in partnership with The Terrence Higgins Trust to provide further help and support to those who test positive for HIV, syphilis, hepatitis B and hepatitis C

### K-RAS

K-RAS is a gene that produces an important cell signalling protein responsible for cell growth. The presence of a mutated form of the K-RAS gene in colorectal cancer may indicate that a patient is unsuitable for new anti-EGFR drugs such as Erbitux™ and Vectibix™

### Liquid Based Cytology ('LBC')

LBC is a process for collecting and processing cytology samples from the cervical epithelial. The method produces a cleaner preparation of cells, without the other materials which frequently contaminate the sample such as blood or mucus.

### mtDNA

Mitochondrial DNA is discrete, cellular and non-chromosomal DNA that is passed from only a mother to her children (of either sex). mtDNA is therefore a useful tool for males and females to track their ancestry through their maternal line

### Medicines and Healthcare products Regulatory Agency ('MHRA')

The MHRA is an executive agency of the UK government, sponsored by the Department of Health, which regulates medicines and medical devices in the UK, playing a leading role in protecting and improving public health and supporting innovation through scientific research and development

### Microarray

Microarrays are a microscopic series of nucleic acid spots of known sequence which are deposited in a regular array typically onto a glass slide. A DNA or RNA probe can then be hybridised to the slide which results in a DNA or RNA fingerprint of the sample in the probe enabling scientists to determine genotypes or gene expressions levels

### Next Generation DNA Sequencing ('NGS')

NGS refers generically to a set of recent technologies, in our case Illumina HiSeq™, Illumina MiSeq™ and Illumina NextSeq™ in which extremely large numbers of short sequences can be determined in a single experiment, for example the Illumina HiSeq™ selected by Source BioScience can sequence two human genomes in ten days

### No Further Review ('NFR')

A unique feature of the FocalPoint™ automated cytology imaging platform that can identify up to 25% of cytology slides that are considered to be negative. These slides do not require further primary manual review, thereby improving the turnaround time and efficiency in the laboratory operations, saving time and cost for the NHS

### Non-Invasive Prenatal Testing ('NIPT')

A procedure which can identify fragments of foetal DNA in maternal blood. NIPT reduces the need for invasive procedures, such as amniocentesis, which are currently used to screen for genetic abnormalities and which present a potential risk of miscarriage

### Phosphate Buffered Serology Saline ('PBSS')

A standardised solution used as a wash solution for human red blood cells prior to blood grouping and serological antibody investigation

### Physical Testing

A qualitative or quantitative procedure that consists of determination of one or more characteristics of a given product to a specified procedure. Examples include hardness testing, friability and particle counting

### Polar50™ and Polar100™

The polar range of bio-storage walk-in chambers are the world's first minus 70 degree chambers. They are designed, built and sold only by Source BioScience. The Polar50™ is 50m³ of internal space and the Polar100™ is 100m³

### Polymerase Chain Reaction ('PCR')

PCR is a laboratory technique which specifically and exponentially amplifies a single or a few copies of a segment of DNA. The resulting product is an indicator of the presence of the original segment of DNA or the product can be used as the material for further experiments, for example genotyping or DNA sequencing.

### Proteomics

The study of specific amino acids, proteins or the entire proteome (a complete translated genome, see above) of an organism. Proteomic techniques include, for example, surveying complex biological samples for protein content, or determining the level of specific proteins in tissues using techniques like immunohistochemistry (IHC, see above)

# Glossary continued

## Qualified Person ('QP')

A person under EU pharmaceutical regulation deemed to be suitably qualified (e.g. a licensed pharmacist, biologist or chemist) and having several years' experience working in pharmaceutical manufacture, who is required to give oversight to the quality of production of a pharmaceutical compound within specified criteria for its use, prior to its release for sale or use in a clinical trial

## Raw Material Testing

A test to ensure the quality and purity of raw materials used in manufacturing for the pharmaceutical, biotech and other industries.

## reSource™

Brand name carried by the Source BioScience product portfolio.

## Ribo Nucleic Acid ('RNA')

RNA is a molecule similar to DNA, that is mostly an intermediate product between the DNA of the gene, and the ultimate protein product of that gene. The level of expression of a gene can be gauged by the amount of RNA synthesised from that gene, a process usually measured by quantitative real-time polymerase chain reaction ('Q-PCR')

## RNA Expression Analysis

A process to measure the activity of a number of genes simultaneously, generating a global picture of cellular function. The expression analyses, or profiles, can distinguish between cells that are actively dividing, for example, or show how the cells react to a particular treatment. Testing of genome-wide RNA expression levels has historically been performed by microarray analysis but the experiments are now as likely to be performed by NGS

## ST<sup>10</sup>

Part of the JBU home-sampling range, the new ST<sup>10</sup> kit provides access to testing for the following ten STIs: Chlamydia, Gonorrhoea, Syphilis, *Herpes simplex 1* (HSV-1), *Herpes simplex 2* (HSV-2), Trichomoniasis ('Trich'), *Mycoplasma hominis*, *Mycoplasma genitalium* ('MG'), *Ureaplasma urealyticum* and Chancroid

## Serology

The study of general antigen-antibody reactions in a laboratory setting and the specific blood test conducted to test for the presence of antibodies. For example serology tests are performed to determine a patient's ABO blood type

## Sexually Transmitted Infection ('STI')

An infection that can be transferred from one person to another through sexual contact. Source BioScience offers Chlamydia screening services to various commissioning bodies as part of the National Chlamydia Screening Programme.

## Spectrometry and Spectroscopy

A technique or equipment that helps identify the amount and type of matter, in our case chemicals, present in a sample by detecting certain absorbed, scattered or emitted wavelengths of light. Examples include atomic absorption spectroscopy (AAS) and Fourier transform infrared spectroscopy (FTIR).

## SpeedREAD™

The Source BioScience brand used to identify our fast overnight capillary sequencing services with less than 10 hour turnaround and pre 9am delivery of results

## Stability Storage services

The provision of validated ICH standard environmental facilities which vary in environmental factors, such as temperature, humidity and light. The purpose of stability testing is to provide evidence on how the quality of a substance or product varies with time in different environments and to establish a shelf life for the substance or product and recommend appropriate storage conditions

## Stability Storage and Controlled Environment Chambers

A range of modular walk-in and reach-in rooms and cabinets sold, serviced and validated by Source BioScience which are used by customers to achieve ICH standard environments in their own facilities for their own internal stability storage projects

## Sterility Testing

A test that critically assesses whether a sterilised component or product is free from viable contaminating micro-organisms.

## Validation

Installation Qualification (IQ), Calibration Qualification (CQ), Operational Qualification (OQ) and Performance Qualification (PQ) and all elements of equipment validation used in laboratory processes. Validation of equipment and environments, and the subsequent documentation, is an essential element of Stability Storage projects

## YDNA

The Y chromosome is a piece of DNA inherited by sons only from fathers through the generations. The characterisation of YDNA is therefore a useful tool for males to track ancestry through the paternal line

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