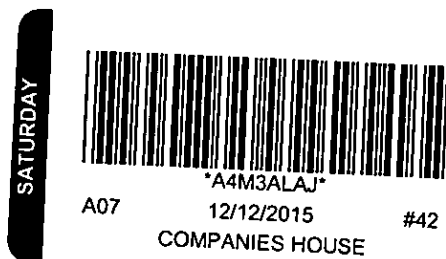


# Instem plc

## REPORT AND FINANCIAL STATEMENTS

Year ended 31 December 2014

COPY OF PARENT'S CONSOLIDATED ACCOUNTS  
FOR SUBSIDIARY COMPANY. 03598020  
INSTEM SCIENTIFIC SOLUTIONS LTD.



Company Registration No 07148099

# Instem plc

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# Instem plc

## DIRECTORS AND ADVISERS

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### DIRECTORS

D Gare (Non-Executive Chairman)  
M F McGoun (Independent Non-Executive)  
D M Sherwin (Non- Executive)  
P J Reason  
N J Goldsmith

### SECRETARY

N J Goldsmith

### REGISTERED OFFICE

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Stone Business Park  
Stone  
Staffordshire  
ST15 0SD  
Tel +44 1785 825600  
Fax: +44 1785 825633  
[www instem com](http://www.instem.com)

Company No 07148099

### AUDITOR

Baker Tilly UK Audit LLP  
Chartered Accountants  
3 Hardman Street  
Manchester M3 3HF

### BANKER

National Westminster Bank Plc  
1 Spinningfields Square  
Manchester M2 3AP

### NOMINATED ADVISER AND BROKER

Nplus1 Singer Advisory LLP  
One Bartholomew Lane  
London EC2N 2AX

### REGISTRARS

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS13 8AE

### SOLICITORS

Squire Patton Boggs (UK) LLP  
Trinity Court  
16 John Dalton Street  
Manchester  
M60 8HS

# Instem plc

## HIGHLIGHTS

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### Financial Highlights

- Revenues increased 18% to £13.4m (2013: £11.4m)
  - Recurring revenues increased to £9.2m (2013: £8.2m), representing 69% of total revenues
  - Software as a Service (SaaS) revenues increased 20% to £1.8m (2013: £1.5m)
- Adjusted EBITDA\* for the year amounted to £1.9m (2013: £1.8m)
- Cash balance as at 31 December 2014 of £1.7m (2013: £2.1m)
  - After £0.3m of deferred acquisition consideration paid in 2014
- Adjusted earnings per share\*\* of 8.4p (2013: 8.6p)

*\*Earnings before interest, tax, depreciation, amortisation, share based payment charges and non-recurring costs*

*\*\*After adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions. Profit is adjusted in this way to provide a clearer measure of underlying operating performance*

### Operational Highlights


- Significant WIL Research contracts won in H1 2014 and H2 2014, with the latter valued at over \$7m over four years
- Multi-year National Institute of Environmental Health Sciences ("NIEHS") contract extended with additional sites and users
- Further client wins extended our market leading position in China
- US Food & Drug Administration mandating drug submissions using SEND (Standard for the Exchange of Non-Clinical Data)
- Multiple orders for submit™, Instem's solution implementing SEND
- Both 2013 acquisitions successfully integrated

### Phil Reason, CEO of Instem plc, commented:

"In contrast to 2013, when the preclinical and early clinical market was generally reluctant to commit to any significant investment decisions, 2014 was a period when many of our customers revisited their near-term ambitions and began to evaluate their ongoing information management requirements. This resulted in a very strong second half performance.

"As we enter the current financial year, our order backlog is at record levels, underpinning our 2015 expectations. In addition, December's decision by the FDA to mandate the future use of SEND was a key event for which Instem has been planning and we have already begun to see increasing interest and orders for the Group's SEND compliant products across a range of customers.

"Total research and development pipelines within the pharma sector have increased by almost 9% to approximately 12,300 drug candidates during 2014, which makes us particularly positive about our outlook for the future as we can now see sustainable growth across our target markets."



**P J Reason**  
Chief Executive  
21 April 2015

# Instem plc

## CHAIRMAN'S STATEMENT

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As previously stated, our near term ambitions for the period were to consolidate our market position and fully integrate the recent acquisitions. I am pleased to report both of these ambitions were completed successfully during the year.

From a market perspective, Instem continues to be the leading supplier of information solutions to the preclinical and early clinical market place. Furthermore, this market is experiencing a strong recovery as global pharmaceutical organisations invest significant financial and human resources to accelerate their own drug development and acquire third party candidates for high value and high growth markets. We believe that Instem continues to be well placed to benefit from increased focus on the tools and skills required to increase the capital efficiency of these global pharmaceutical and biotechnology companies and their partners.

During the year, we achieved strong organic growth through expansion contracts with existing customers, winning contracts with new customers and successfully integrating the acquisitions of Instem Clinical Holdings Limited and Perceptive Instruments Limited, which both contributed a full-year of trading, to record a period of strong revenue growth of 18%.

From an organic growth point of view, we were particularly pleased to extend the contract with WIL Research for our Provantis and Submit solutions for their toxicology systems and processes worldwide. We also extended our Provantis contract with the National Institute of Environmental Health Sciences ("NIEHS"), which is part of the US National Institute of Health.

With regard to new clients, we won eight new contracts for our Submit suite during the period, expanded our international revenues across Asia-Pacific with two new contracts with the National Shanghai Centre for Drug Safety Evaluation and Research, a leading Chinese Contract Research Organisation ("CRO") and a multi-year contract with a leading multi-national organisation to support its standards for the exchange of non-clinical data.

During the period, the Company was pleased to confirm that the initial earn out criteria for the Instem Clinical acquisition were successfully achieved, triggering the first two payments to the vendors. Furthermore, the recently integrated Perceptive Instruments acquisition performed well during the period making a solid contribution to revenue and profits.

We have successfully diversified our revenue base, further reducing the Group's dependence on particular products, market sectors or geographies whilst continuing to invest in the capabilities of our product portfolio and staff. Contract renewal rates remained high through the year and we ended 2014 with a record backlog of orders. Furthermore, in December 2014 SEND received final mandatory guidance from the FDA, setting the dates by which all regulatory submissions must comply with the standard, this is a key development in our market that should provide significant impetus for our products.

We therefore look forward to the future with confidence and believe Instem will become an increasingly valuable player in the field of supporting drug development through the application of leading information technology solutions.

Finally, I would like to take this opportunity to thank all our staff, customers and partners for their ongoing support.

**D Gare**  
Chairman  
21 April 2015

# Instem plc

## STRATEGIC REPORT

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The year in review represents a period of significant progress for the Group in terms of expanding the product portfolio and diversifying the revenue base by product and territory

Instem continues to be a leading supplier to the world's largest life science organisations and laboratories, delivering solutions to streamline R&D processes, resulting in increased client efficiency and shorter product development timelines. Following a subdued first half of the year, the global pharmaceutical industry in general, and the Contract Research Organisations (CROs) that service it in particular, witnessed a strong recovery in the second half of the year.

Total Group revenue for 2014 increased approximately 18% over the previous year as a combination of 11% organic growth and 7% contribution from the Perceptive Instruments acquisition, which only contributed one month of revenue in 2013.

As a result of the improving market and our increasing industry presence, new business opportunities improved significantly in both size and quality during the year and we converted the majority of our new business using our SaaS or Hosted delivery models, helping reduce the medium-term cost of ownership for clients and the cost of client support for Instem. The SaaS model also improves revenue visibility and quality of earnings for the Group. SaaS revenue for the year increased 20%.

Profitability of the Group also increased during the year, with Adjusted Earnings before Interest, Tax, Depreciation and Amortisation increasing 5% despite significant investment in our products and people during the period.

### Operational Review

To capitalise on our increased product portfolio and market presence we added to our Sales, Marketing and Implementation Services teams during the year and made significant progress in scaling up our Pune, India operation, from where we can flexibly and cost effectively provide a range of software development, testing, client support and back-office implementation services. To support our growth in India and elsewhere in the Asia-Pacific we extended our ISO9001 2008 accreditation to cover both our Pune and Shanghai offices.

### Product Portfolio

With major version upgrades for all current Provantis and ALPHADAS clients, the increased deployment of our Submit suite and the general migration to our Software-as-a-Service and Hosted deployment models, we also invested further in the Company's data centre infrastructure across both the US and China.

### *PreClinical – Provantis® and Perceptive Instruments*

The Group's pre-clinical software suite, Provantis, advanced its market leading position in the year with significant contracts with the National Institute of Environmental Health Sciences ("NIEHS") and WIL Research, a leading CRO, in both the first and second half of the year.

The addition of 100 additional Provantis users and two additional sites for NIEHS illustrated the compelling value proposition of the Group's SaaS delivery model and confirms it remains the leading solution in the marketplace today. Importantly, this provides further confidence that this particular customer will generate revenue at the upper end of the forecast US\$6.2m to US\$7.6m range over the ten-year period envisaged when the contract was initially signed in 2013. The contracts signed with WIL Research were also representative of our leading position in the CRO sector. In particular, the contract signed in the second half of the year was worth US\$7.0m over four years, which is significantly larger than the average contract size for the Group.

Perceptive Instruments, acquired in November 2013 to enhance the Group's study workflow and automation solutions, won over 30 new clients in the first full year post acquisition, recorded its first sale of its new Cyto Study Manager Solution, which was also launched in the year, and achieved its first sale into Japan of its AMES Study Manager product.

# Instem plc

## STRATEGIC REPORT

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### *Electronic Regulatory Submissions – submit™*

Importantly, the Group extended its market leading position in the SEND market with its proprietary Submit solution suite. During the year, the Group hired experienced staff members from Roche, AstraZeneca and Eli Lilly to accelerate product development and penetration in this exciting space, resulting in the release of important updates and additional software modules in the Submit suite for managing and viewing SEND data sets.

The Group won eight new Submit clients during the year, including some of the world's largest pharmaceutical companies and CROs and now has the majority of those enterprises instrumental in the development of the SEND protocol over the past 10 years, representing a significant endorsement of the Group's solution. This important market is set to receive a significant boost following the issue of definitive guidance by the FDA in December 2014 as to the deadline when all regulatory submissions must be made using SEND.

### *Early Clinical – ALPHADASTM*

Following strong order intake in 2013, Instem Clinical focused considerable attention on a series of related updates to our ALPHADAS product suite and the corresponding client implementations. With a growing client list and many more parallel implementation projects, we took the opportunity to strengthen the implementation and support team.

The Group implemented several important ALPHADAS projects during the year and continues to cycle clients onto the latest version of the product suite. New business across Europe was particularly strong for ALPHADAS, whilst several opportunities in North America were delayed as early phase clinical CROs continued to restructure and realign their resource requirements.

### *Instem Scientific*

Instem Scientific has always had a blend of product sales for big data informatics and related consulting services in the information sciences. While recurring product support revenue from existing clients has been robust, the ongoing restructuring in big pharma has steadily reduced their internal capabilities in this area, reducing demand for additional product licenses. However, consistent with their strategic move to an outsourcing model, there was growing client interest in our consulting expertise and particularly our capability to leverage our sophisticated technology suite. Consequently, we have repositioned our approach to address this emerging opportunity. We expect to see the benefits of this change in the coming years, as demand for consulting expertise is usually a lead indicator for increasing demand for other products and services across this market sector.

### **Market Overview**

Citeline®, which claims to have the world's most comprehensive source of real-time R&D intelligence for the pharmaceutical industry, recently reported that the global drug pipeline had increased by 8.8% in the past year, alongside a 27% increase in market launches of new active substances. Supported by high capital inflows, the biggest growth segment was small to mid-tier pharma, with a year-on-year increase of more than 10% in the number of companies with an active drug development portfolio.

Following the strong growth recorded in 2013, the growth in 2014 represents the largest annual drug pipeline rise on record, in absolute terms, and there is further evidence that the global pharmaceutical market is now moving resources from late stage clinical development into early compound development work in order to refill the pipeline of preclinical candidates.

These drug development activities require specialist services and technologies with a particular focus on IT solutions which enable organisations to improve cost efficiencies and ensure they are able to meet the ever increasing regulatory demands of the industry. The regulatory bodies' preference for the electronic capture, storage and transfer of data for new drug submissions continues to grow and pharmaceutical organisations are seeking tools that can help them to identify suitable drug candidates from vast volumes of historic data, in addition to managing their compliance risk with the authorities.

# Instem plc

## STRATEGIC REPORT

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### *PreClinical market*

Asustained recovery in study volumes is currently being reported by PreClinical CROs as pharmaceutical organisations are currently seeking to replenish early stage pipelines after five years focused predominately on late stage clinical candidates. This is supported by the recent Citeline® report, which shows the PreClinical drug pipeline increased by 10.5% in the last year, with CROs accounting for the majority of the increase.

With increased preclinical study volume helping to create opportunities with the pharma sponsors, PreClinical CROs continue to report strong demand in North America, but a continuation in suppressed demand from Europe and Japan. Numerous CROs have been adding or looking to add additional capacity.

### *Early Stage Clinical market*

The recent market study from Citeline® reported a 4.9% increase in the Early Stage Clinical pipeline, less than in 2013, and this supports anecdotal evidence that the Early Stage Clinical market is growing less consistently, with some CROs reporting marked increases in study volume and others still with capacity to spare.

The early stage clinical market is immediately downstream of preclinical and there may therefore be a delay before the increased preclinical investment delivers an improved flow of drug candidates to the clinic. The restructuring of the early phase clinical CRO market, as experienced in recent years, is expected to continue with CRO performance quite variable.

Nevertheless opportunities exist within the early stage clinical market for the deployment of Instem's software solutions. These opportunities are resulting from an increasing recognition of the need to control data quality and integrity and because levels of automation within the early stage environment remain low.

### *Government and Academic Research*

Funding for Government/Academic institutions undertaking later stages of life sciences research in North America, China and Europe continues to grow to cover gaps that are not sufficiently attractive to commercial enterprises. This enables them to invest in both study automation solutions and in innovative approaches to the process of R&D using novel scientific, informatics and big data approaches.

### **Outlook**

In contrast to 2013, when the preclinical and early clinical market was generally reluctant to commit to any significant investment decisions, 2014 was a period when many of our customers revisited their near-term ambitions and began to evaluate their ongoing information management requirements. This resulted in a very strong second half performance.

As we enter the current financial year, our order backlog is at record levels, underpinning our 2015 expectations. In addition, December's decision by the FDA to mandate the future use of SEND was a key event for which Instem has been planning and we have already begun to see increasing interest and orders for the Group's SEND compliant products across a range of customers.

Total research and development pipelines within the pharma sector have increased by almost 9% to approximately 12,300 drug candidates during 2014, which makes us particularly positive about our outlook for the future as we can now see sustainable growth across our target markets.



**P J Reason**  
Chief Executive  
21 April 2015



## Instem plc

### FINANCIAL REVIEW

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Instem's revenue model consists of perpetual license income with annual support contracts, professional services fees and SaaS subscriptions. Total revenue for the twelve months to 31 December 2014 increased 18% to £13.4m compared to the same period last year. From a territory perspective, demand for our products and services from customers in North America continued to increase whilst new business in Europe was more muted, reflecting the lower levels of pharmaceutical R&D activity in the region.

During the period, organic revenue increased 11% with the remaining 7% revenue growth from a full-year contribution of the Perceptive Instruments acquisition. The organic revenue growth was driven primarily from the increased sales of our Submit suite with total revenue benefiting from a full year contribution from the Perceptive Instruments acquisition, which made negligible revenue contribution in 2013.

Total recurring revenue, from support contracts and SaaS based subscriptions, increased 12% during the year to £9.2m, now representing 69% total revenue and 79% of total operating expenses of the Group. SaaS based revenue, which provides enhanced total returns and increased revenue visibility, increased 20% to £1.8m.

Adjusted Earnings before Interest, Tax, Depreciation, Amortisation and share based payments, increased 5% to £1.9m. Development costs incurred during the period were £1.3m of which £0.3m was capitalised. The non-recurring costs included a charge of £0.06m relating to a trade dispute, net of insurance proceeds, and £0.07m of professional fees associated with the Perceptive Instruments acquisition in 2013.

Profit before tax decreased by £0.5m to £0.2m due to increased amortisation of intangibles, increased FRS17 pension charge and net foreign exchange losses. In 2013 the acquired subsidiaries contributed £0.6m. After consolidation and IFRS adjustments, the core business before acquisitions reported a post-tax loss in 2013 of £0.05m due primarily to a delay in one particularly significant perpetual licence and non-recurring costs of £0.2m.

The Group claimed and received research and development tax credits during the year of £0.1m (2013: £0.05m).

Cash generated from operating activities was £0.5m (2013: £2.0m) impacted by the late WIL contract win in December 2014, the cash receipt from which is due in 2015, and late receipt of three annual fee renewals. The Group had cash reserves of £1.7m as at 31 December 2014, compared with £2.1m as at 31 December 2013, after making two deferred consideration cash payments for the Instem Clinical acquisition during the year amounting to £0.3m. In addition, cash consideration amounting to £0.3m was taken in the form of a Loan Note included within current financial liabilities at the year-end, which was paid in January 2015.

There was an increase in the funding deficit on the Group's defined benefit pension scheme during the period calculated in accordance with the provisions of IAS19 that amounted to £0.5m, net of deferred tax (2013: £0.6m), which has been recognised in Other Comprehensive Expense. This was a non-cash charge in the period and arose primarily as a result of forecast lower gilt yields, partially offset by higher expected returns on assets.

As part of the scheme's triennial actuarial valuation as at 5 April 2011, the Group agreed a schedule of payments to the scheme with the trustees and the Pensions Regulator that is designed to eliminate the funding deficit over an eight year period. The scheme's actuarial valuation as at 5 April 2014 is currently in process and will be reported in the six month results to 30 June 2015. The defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008.

The increase in the merger reserve of £0.6m was due to the premium arising from the issue of shares as part of the deferred consideration payment relating to the Instem Clinical acquisition.

In line with previous periods, and our current policy of retaining cash within the business to capitalise on the available growth opportunities, the Board has not recommended the payment of a dividend.

#### Principal Risks and Uncertainties

The directors consider that the global pharmaceutical market is likely to continue to provide growth opportunities for the business. The combination of the high level of annual support renewals and low levels of customer attrition provides revenue visibility to underpin the Group strategy on product and market development.

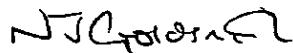
# Instem plc

## FINANCIAL REVIEW

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The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme

The global nature of the market means that the Group is exposed to currency risk as a consequence of a significant proportion of its revenue being earned in US Dollars, some of which is mitigated by operating costs incurred by its US operation. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth



**N J Goldsmith**  
Chief Financial Officer  
21 April 2015

# Instem plc

## CORPORATE GOVERNANCE STATEMENT

### Corporate Governance Statement

Given the size of the Group the Board has decided to apply the Corporate Governance Code for Small and Mid-Size Quoted Companies as it seeks to maintain a strong governance ethos throughout the Group. The Board recognises its overall responsibility for the Group's systems of internal control and for monitoring their effectiveness.

The main features of the Group's corporate governance procedures, are as follows:

- the Board has one independent non-executive director who takes an active role in Board matters,
- the Group has an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which consists of the non-executive directors, and meets regularly with executive directors in attendance by invitation. The Audit Committee has unrestricted access to the Group's auditor and ensures that auditor independence has not been compromised,
- all business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of "matters referred to the Board", and
- regular monitoring of key performance indicators and financial results together with comparison of these against expectations.

### Attendance at Board and Committee Meetings

Attendances of directors at Board and Committee meetings convened in the period, along with the number of meetings they were invited to attend, are set out below:

	<i>No. of meetings attended / No. of meetings invited to attend</i>			
	<i>Board meetings</i>	<i>Audit Committee</i>	<i>Remuneration Committee</i>	<i>Nomination Committee</i>
<b>Executive Directors</b>				
P J Reason	8/8	2/2	3/3	0/0
N J Goldsmith	8/8	2/2	0/0	0/0
<b>Non-Executive Directors</b>				
D Gare	8/8	2/2	4/4	1/1
D M Sherwin	8/8	2/2	4/4	1/1
M F McGoun	8/8	2/2	4/4	1/1

### Audit Committee

The Audit Committee comprises M F McGoun (Chairman), D Gare and D M Sherwin, all of whom are non-executive directors of the Company. The Board is satisfied that the Audit Committee has all the recent and relevant financial experience required to fulfil the role.

Appointments to the Audit Committee are made by the Board in consultation with the Nomination Committee and the chairman of the Audit Committee. The Audit Committee meets at least twice a year and any other time as required by either the chairman of the Audit Committee, the Chief Financial Officer of the Group or the external auditor of the Group. In addition, the Audit Committee shall meet with the external auditor of the Group (without any of the executives attending) at any time during the year as it deems fit.

# Instem plc

## CORPORATE GOVERNANCE STATEMENT

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### Audit Committee (continued)

#### The Audit Committee

- (a) monitors the financial reporting and internal financial control principles of the Group,
- (b) maintains appropriate relationships with the external auditor including considering the appointment and remuneration of the external auditor and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process,
- (c) reviews all financial results of the Group and financial statements, including all announcements in respect thereof before submission of the relevant documents to the Board,
- (d) reviews and discusses (where necessary) any issues and recommendations of the external auditor including reviewing the external auditor's management letter and management's response,
- (e) considers all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditor,
- (f) reviews the Board's statement on internal reporting systems and keeps the effectiveness of such systems under review; and
- (g) considers all other relevant findings and audit programmes of the Group

The Audit Committee is authorised to

- (a) investigate any activity within its terms of reference,
- (b) seek any information it requires from any employee of the Group, and
- (c) obtain, at the Group's expense, outside legal or other independent professional advice and to secure the attendance of such persons to meetings as it considers necessary and appropriate

### Remuneration Committee

The Remuneration Committee comprises M F McGoun (Chairman), D Gare and D M Sherwin, all of whom are non-executive directors of the Company

The members of the Remuneration Committee are appointed by the Board on recommendation from the Nomination Committee, in consultation with the Chairman of the Remuneration Committee. The Chief Executive Officer of the Group is normally invited to meetings of the Remuneration Committee to discuss the performance of other executive directors but is not involved in any of the decisions. The Remuneration Committee invites any person it thinks appropriate to join the members of the Remuneration Committee at its meetings. The Remuneration Committee meets at least once a year and any other time as required by either the Chairman of the Remuneration Committee or the Chief Financial Officer of the Group.

#### The Remuneration Committee

- (a) ensures that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Group but also ensures that the Group avoids paying more than is necessary for this purpose,
- (b) considers the remuneration packages of the executive directors and any recommendations made by the Chief Executive Officer for changes to their remuneration packages including in respect of bonuses (including associated performance criteria), other benefits, pension arrangements and other terms of their service contracts and any other matters relating to the remuneration of or terms of employment applicable to the executive directors that may be referred to the Remuneration Committee by the Board,
- (c) oversees and reviews all aspects of the Group's share option schemes including the selection of eligible directors and other employees and the terms of any options granted,
- (d) demonstrates to the Group's shareholders that the remuneration of the executive directors is set by an independent committee of the Board, and
- (e) considers and makes recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those required by law or by the London Stock Exchange

# Instem plc

## CORPORATE GOVERNANCE STATEMENT

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### Remuneration Committee (continued)

The Chairman of the Remuneration Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee produces an annual report which is included in the Group's annual report and accounts.

The Remuneration Committee is authorised to

- (a) investigate any activity within its terms of reference,
- (b) seek any information it requires from any employee of the Group;
- (c) assess the remuneration paid by other UK listed companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors' remuneration is appropriate for the purpose of making their remuneration competitive or otherwise comparable with the remuneration paid by such companies, and
- (d) obtain, at the Group's expense, outside legal or other independent professional advice, including independent remuneration consultants, when the Remuneration Committee reasonably believes it is necessary to do so and secure the attendance of such persons to meetings as it considers necessary and appropriate.

### Nomination Committee

The Nomination Committee comprises D Gare (Chairman), M F McGoun and D M Sherwin, all of whom are non-executive directors of the Company.

Appointments to the Nomination Committee are made by the Board, in consultation with the Chairman of the Nomination Committee.

The Nomination Committee may invite any person it thinks appropriate to join the members of the Nomination Committee at its meetings.

The Nomination Committee

- (a) regularly reviews the structure, size and composition (including skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes,
- (b) gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and what skills and expertise are needed on the Board in the future,
- (c) is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise, and
- (d) evaluates the balance of skills, knowledge and experience on the Board before an appointment is made and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

The Chairman of the Nomination Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Nomination Committee also makes recommendations to the Board concerning

- (a) formulating plans for succession for both executive and non-executive directors and in particular the key roles of Chairman of the Board and Chief Executive Officer;
- (b) membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees,

# Instem plc

## CORPORATE GOVERNANCE STATEMENT

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### Nomination Committee (continued)

- (c) the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required,
- (d) the re-election by shareholders of any director under the "retirement by rotation" provisions in the Company's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required,
- (e) matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Group subject to the provisions of the law and his/her service contract, and
- (f) the appointment of any director to executive or other office other than to the positions of Chairman of the Board and Chief Executive Officer, the recommendation for which would be considered at a meeting of the full Board

The Nomination Committee is authorised to

- (a) investigate any activity within its terms of reference,
- (b) seek any information it requires from any employee,
- (c) obtain outside legal or other independent professional advice at the Group's expense when the Nomination Committee reasonably believes it is necessary to do so, and
- (d) instruct external professional advisers to attend any meeting at the Group's expense if the Nomination Committee considers this reasonably necessary and appropriate

### Internal Controls

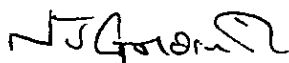
The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board and senior executives meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an ongoing basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage.

### Going Concern

The directors have prepared and reviewed financial forecasts for the following two years. After due consideration of these forecasts and current cash resources, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report), and for this reason the financial statements have been prepared on a going concern basis.

On behalf of the Board



**N J Goldsmith**  
Director and Company Secretary  
21 April 2015

# Instem plc

## DIRECTORS' REPORT

---

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2014

Instem plc is a public limited company, incorporated and domiciled in England, and quoted on AIM

### REVIEW OF THE BUSINESS

In measuring the successful development of the business, the directors focus on two important performance indicators which strongly underwrite the future performance of the Group.

#### 1 Total number of customers

In 2014 the Group had in excess of 400 customers (2013 in excess of 400 customers) for continuing products.

#### 2 Recurring revenue

The Group generates a substantial proportion of revenue from fees in respect of annual support, hosting and routine upgrade services. The value of these recurring fees in 2014 was £9.2m (2013 £8.2m)

A more detailed review of the development and performance of the Group's business during the year and its position at the end of the year is set out in the Chairman's Statement, the Strategic Report and Financial Review on pages 3 to 8

### FUTURE DEVELOPMENTS

The directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. Investment in business growth initiatives will also allow the business to move into new product and market areas. The combination of organic growth along with strategic acquisitions will support the expected growth as outlined in the Chairman's Statement and the Strategic Report.

### RESEARCH AND DEVELOPMENT ACTIVITIES

The Group continues its development programme of software for the global pharmaceutical market including the research and development of new products and enhancement to existing products. The directors consider the investment in research and development to be fundamental to the success of the business in the future.

### DIVIDENDS

The directors do not recommend the payment of a dividend

### DIRECTORS

The following directors held office during the year

D Gare  
M F McGoun  
D M Sherwin  
P J Reason  
N J Goldsmith

Details of the directors' service contracts and their respective notice terms are detailed in the Directors' Remuneration report on page 15

# Instem plc

## DIRECTORS' REPORT

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### DIRECTORS AND THEIR INTERESTS

The interests of the directors who held office at 31 December 2014 and up to the date of this report were as follows

	2014	2013
	No. of shares	No. of shares
D Gare	2,278,427	2,278,427
D M Sherwin	1,580,066	1,580,066
P J Reason	665,287	665,287
M F McGoun	14,286	14,286
N J Goldsmith	-	-

Directors' interests in share options are detailed in the Remuneration report on page 15

### EMPLOYEE INVOLVEMENT

The general policy of the Group is to welcome employee involvement as far as it is reasonably practicable. Employees are kept informed of progress by regular company meetings and monthly management reports

### POLITICAL DONATIONS

The Group made no political donations in 2014 or 2013

### FINANCIAL INSTRUMENTS

The Group's objectives and policies on financial instruments are set out in note 18 to the financial statements.

### INDEMNITY OF OFFICERS AND DIRECTORS

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Group may and has indemnified all directors and other officers against liability incurred in the execution or discharge of their duties or the exercise of their powers, including but not limited to any liability for the costs of any legal proceedings. The Group has purchased and maintains appropriate insurance cover against legal action brought against directors or officers

### ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 19 May 2015 at the offices of Baker Tilly, Manchester. The resolutions to be proposed at the Annual General Meeting, together with explanatory notes, appear in a separate notice of Annual General Meeting which is sent to all shareholders. A proxy card for registered shareholders is distributed along with the notice.

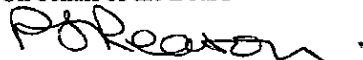
### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### AUDITOR

Pursuant to s489 of the Companies Act 2006, a resolution to appoint Baker Tilly UK Audit LLP as auditor will be put to the members at the forthcoming Annual General Meeting.

On behalf of the Board



**P J Reason**

Director

21 April 2015



# Instem plc

## DIRECTORS' REMUNERATION REPORT

---

Instem plc is a company listed on AIM and it is not required to comply with Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to directors' remuneration reports or the Listing Rules. The disclosures contained within this report are, therefore, made on a voluntary basis and in keeping with the Board's commitment to best practice.

### **Remuneration Committee**

The Remuneration Committee ('the Committee') is composed entirely of non-executive directors. The Committee was formed upon the public listing of the Company on 13 October 2010. The Chairman of the Committee is M F McGoun. The terms of reference for the Committee are to determine the Company's policy on executive remuneration and to consider and approve the remuneration packages for directors and key executives of the Company, subject to ratification by the Board. During the year, the Committee met on four occasions. Full details of the elements of each director's remuneration are set out on page 16. Details of share-based payments are shown in note 6 to the financial statements.

### **Policy on Executive Director Remuneration**

The Company's current and ongoing policy aims to ensure that executive directors are rewarded fairly for their individual contributions to the Company's overall performance and is designed to attract, retain and motivate executives of the right calibre. The Committee is responsible for recommendations on all elements of executive remuneration including, in particular, basic salary, annual bonus, share options and any other incentive awards. In implementing the remuneration policy, the Committee has regard to factors specific to the Company, such as salary and other benefit arrangements within the Company and the achievement of the Company's strategic objectives. The Committee determines the Company's Policy on executive remuneration with reference to comparable companies of similar market capitalisation, location and business sector.

### **Basic Salary**

The basic salaries of executive directors are reviewed annually having regard to individual performance and position within the Company and are intended to be competitive but fair using information provided from both internal and external sources.

### **Performance Related Annual Bonus**

Executive directors are eligible for a performance related bonus based on Company performance, in particular, the achievement of profit and cash targets. The performance related annual bonus forms a significant part of the level of remuneration considered appropriate by the Committee. In addition to the formal bonus scheme, the Committee has the discretion to recommend the payment of ad hoc awards to reflect exceptional performance. No bonuses were paid or payable in respect of the year ended 31 December 2014 (2013: £nil).

### **Pensions**

Company contributions are made to the executive directors' personal pension schemes up to a maximum of 16.5% of basic salary.

### **Benefits**

Benefits comprise car and fuel allowance and private healthcare and critical illness cover. No executive director receives additional remuneration or benefits in relation to being a director of the Board of the Company or any subsidiary of the Company.

### **Service Contracts**

The Executive directors have contracts with notice periods between six and twelve months.

The Board determines the Company's policy on non-executive directors' remuneration.

D Gare, D M Sherwin and M F McGoun each have a contract that had an initial three year term commencing October 2010. These contracts were renewed in December 2013, each with a notice period of three months. Since October 2013 Mr McGoun has been remunerated through a service company, Noble Adamson Limited.

# Instem plc

## DIRECTORS' REMUNERATION REPORT (Continued)

The emoluments paid to directors in the year ended 31 December 2014 were as follows

	Salary	Benefits	Pension	2014 Total	2013 Total
	£000	£000	£000	£000	£000
<b>Executives</b>					
P J Reason	144	14	24	182	185
N J Goldsmith	100	11	11	122	119
<b>Non-Executives</b>					
D Gare	44	-	-	44	44
D M Sherwin	24	-	-	24	24
M F McGoun	24	-	-	24	24
<b>Total</b>	<b>336</b>	<b>25</b>	<b>35</b>	<b>396</b>	<b>396</b>

### Directors' and Employees' Share Options

	Exercise price (£)	Issue date	Held at 31 Dec 2013	Granted During Year	Exercised during Year	Lapsed during Year	Held at 31 Dec 2014
<b>P J Reason</b>							
Ordinary shares	1 750	13/10/2010	187,427	-	-	-	187,427
	0 900	14/01/2013	23,429	-	-	-	23,429
<b>N J Goldsmith</b>							
Ordinary shares	2 215	29/11/2011	40,000	-	-	-	40,000
	1 760	07/02/2012	20,000	-	-	-	20,000
	0 900	14/01/2013	15,000	-	-	-	15,000
<b>Employees</b>							
Ordinary shares	1 750	13/10/2010	304,568	-	-	-	304,568
	2 220	03/03/2011	101,351	-	-	(7,507)	93,844
	2 220	17/10/2011	14,667	-	-	-	14,667
	1 115	23/10/2012	40,000	-	-	-	40,000
	0 900	14/01/2013	61,397	-	-	-	61,397
<b>Total</b>			<b>807,839</b>	<b>-</b>	<b>-</b>	<b>(7,507)</b>	<b>800,332</b>

Subsequent to the year end, on 11 February 2015 81,168 share options were granted to employees with an exercise price of £0.10 each.

Approved by the Board and signed on its behalf by:

**M F McGoun**  
Independent Non-Executive Chairman  
21 April 2015

# Instem plc

## DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations

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

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

In preparing the Group and Company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Instem plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Instem plc

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

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We have audited the group and parent company financial statements ("the financial statements") on pages 19 to 66. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2014 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

GRAHAM BOND FCA (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

3 Hardman Street

Manchester

M3 3HF

2015

# Instem plc

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

Continuing Operations	Note	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
REVENUE	1	13,429	11,361
Operating expenses		(11,699)	(9,685)
Amortisation of internally generated intangibles		(297)	(226)
PROFIT FROM OPERATIONS BEFORE AMORTISATION OF ACQUIRED INTANGIBLES, SHARE BASED PAYMENT AND NON-RECURRING COSTS		1,433	1,450
Amortisation of intangibles arising on acquisition		(640)	(394)
Share based payment		(108)	(96)
PROFIT BEFORE NON-RECURRING COSTS		685	960
Non-recurring costs	2	(123)	(200)
PROFIT FROM OPERATIONS	2	562	760
Finance income	3	9	145
Finance costs	4	(359)	(207)
PROFIT BEFORE TAXATION		212	698
Taxation	8	(62)	(169)
PROFIT FOR THE YEAR		150	529
OTHER COMPREHENSIVE EXPENSE			
Items that will not be reclassified to profit and loss account			
Actuarial loss on retirement benefit obligations		(621)	(587)
Deferred tax on actuarial loss		124	30
		(497)	(557)
Items that may be reclassified to profit and loss account			
Exchange differences on translating foreign operations		34	(90)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		(463)	(647)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(313)	(118)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		150	529
TOTAL COMPREHENSIVE EXPENSE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		(313)	(118)
Earnings per share from continuing operations			
Basic	22	1 2p	4 5p
Diluted	22	1 2p	4.5p

# Instem plc

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

Company Registration No 07148099

	Note	2014 £000	2013 £000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	12,439	12,887
Property, plant and equipment	11	263	265
Deferred tax assets	19	574	388
<b>TOTAL NON-CURRENT ASSETS</b>		<b>13,276</b>	<b>13,540</b>
<b>CURRENT ASSETS</b>			
Inventories	12	506	307
Trade and other receivables	13	4,432	2,908
Cash and cash equivalents	14	1,676	2,053
<b>TOTAL CURRENT ASSETS</b>		<b>6,614</b>	<b>5,268</b>
<b>TOTAL ASSETS</b>		<b>19,890</b>	<b>18,808</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	8,175	7,236
Current tax payable	16	231	7
Financial liabilities	17	1,903	1,250
<b>TOTAL CURRENT LIABILITIES</b>		<b>10,309</b>	<b>8,493</b>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities	17	281	1,836
Retirement benefit obligations	20	3,881	3,506
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>4,162</b>	<b>5,342</b>
<b>TOTAL LIABILITIES</b>		<b>14,471</b>	<b>13,835</b>
<b>EQUITY</b>			
Share capital	21	1,221	1,176
Share premium	23	7,892	7,892
Merger reserve	23	(326)	(932)
Shares to be issued	23	378	270
Translation reserve	23	228	194
Retained deficit	23	(3,974)	(3,627)
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>5,419</b>	<b>4,973</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>19,890</b>	<b>18,808</b>

The financial statements on pages 19 to 66 were approved by the Board of directors and authorised for issue On 21 April 2015 and are signed on its behalf by



**P J Reason**  
Director



**N J Goldsmith**  
Director

# Instem plc

## COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2014


Company Registration No 07148099

	Note	2014 £000	2013 £000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investments	10	23,132	23,024
<b>TOTAL NON-CURRENT ASSETS</b>		<b>23,132</b>	<b>23,024</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	13	2,231	1,243
Cash and cash equivalents	14	97	277
<b>TOTAL CURRENT ASSETS</b>		<b>2,328</b>	<b>1,520</b>
<b>TOTAL ASSETS</b>		<b>25,460</b>	<b>24,544</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	2,322	1,264
Current tax payable	16	-	120
Financial liabilities	17	1,903	1,250
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,225</b>	<b>2,634</b>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities	17	281	1,836
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>281</b>	<b>1,836</b>
<b>TOTAL LIABILITIES</b>		<b>4,506</b>	<b>4,470</b>
<b>EQUITY</b>			
Share capital	21	1,221	1,176
Share premium	23	7,892	7,892
Merger reserve	23	11,308	10,702
Shares to be issued	23	378	270
Retained profit	23	155	34
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>20,954</b>	<b>20,074</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>25,460</b>	<b>24,544</b>

The financial statements on pages 19 to 66 were approved by the Board of directors and authorised for issue On 21 April 2015 and are signed on its behalf by



**P J Reason**  
Director



**N J Goldsmith**  
Director

# Instem plc

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014	2013
		£000	£000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		212	698
<i>Adjustments for</i>			
Depreciation		127	96
Amortisation of intangibles		937	620
Share based payments and shares to be issued		108	96
Retirement benefit obligations		(398)	(412)
Net foreign exchange gains		-	84
Finance income		(9)	(145)
Finance costs		359	207
		<b>1,336</b>	<b>1,244</b>
<b>CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL</b>			
<i>Movements in working capital.</i>			
Increase in inventories		(196)	(210)
(Increase)/Decrease in trade and other receivables		(1,436)	823
Increase in trade and other payables		743	31
		<b>447</b>	<b>1,888</b>
<b>CASH GENERATED FROM OPERATIONS</b>			
Finance costs		(65)	(9)
Income taxes		100	74
		<b>482</b>	<b>1,953</b>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Finance income received		9	61
Purchase of intangible assets		(369)	(407)
Purchase of property, plant and equipment		(124)	(171)
Payment of deferred consideration		(302)	-
Acquisition of subsidiaries		-	(2,710)
Cash acquired with subsidiaries		-	1,134
		<b>(786)</b>	<b>(2,093)</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan notes repaid		-	(250)
		<b>-</b>	<b>(250)</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>			
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(304)</b>	<b>(390)</b>
Cash and cash equivalents at start of year		2,053	2,450
Effects of exchange rate changes on the balance of cash held in foreign currencies		(73)	(7)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	14	<b>1,676</b>	<b>2,053</b>



# Instem plc

## COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014	2013
		£000	£000
<b>CASH FLOWS FROM OPERATIONS</b>			
Profit before taxation	1	65	
<i>Adjustments for</i>			
Finance income	(6)	(3)	
Finance cost	50	63	
<b>CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL</b>			
<i>Movements in working capital</i>			
(Increase)/decrease in trade and other receivables		(988)	789
Increase in trade and other payables		1,059	955
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>116</b>	<b>1,869</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Finance income received	6	3	
Payment of deferred consideration	(302)	-	
Acquisition of subsidiaries	-	(2,710)	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(296)</b>	<b>(2,707)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan notes repaid	-	(250)	
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>-</b>	<b>(250)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(180)</b>	<b>(1,088)</b>
Cash and cash equivalents at start of year		277	1,365
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>14</b>	<b>97</b>	<b>277</b>

# Instem plc

## CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Called up share capital £000	Share Premium £000	Merger Reserve £000	Shares to be issued £000	Translation reserve £000	Retained earnings £000	Total Equity £000
Balance as at 1 January 2013	1,176	7,892	(932)	174	284	(3,599)	4,995
Profit for the year	-	-	-	-	-	529	529
Other comprehensive expense for the year	-	-	-	-	(90)	(557)	(647)
Total comprehensive expense	-	-	-	-	(90)	(28)	(118)
Share based payment	-	-	-	96	-	-	96
Balance at 31 December 2013	1,176	7,892	(932)	270	194	(3,627)	4,973
Profit for the year	-	-	-	-	-	150	150
Other comprehensive income/(expense) for the year	-	-	-	-	34	(497)	(463)
Total comprehensive income/(expense)	-	-	-	-	34	(347)	(313)
Shares issued	45	-	606	-	-	-	651
Share based payment	-	-	-	108	-	-	108
<b>Balance as at 31 December 2014</b>	<b>1,221</b>	<b>7,892</b>	<b>(326)</b>	<b>378</b>	<b>228</b>	<b>(3,974)</b>	<b>5,419</b>

### COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital £000	Share Premium £000	Merger Reserve £000	Shares to be issued £000	Retained earnings £000	Total Equity £000
Balance as at 1 January 2013	1,176	7,892	10,702	174	89	20,033
Loss for the year	-	-	-	-	(55)	(55)
Share based payment	-	-	-	96	-	96
Balance as at 31 December 2013	1,176	7,892	10,702	270	34	20,074
Profit for the year	-	-	-	-	121	121
Shares issued	45	-	606	-	-	651
Share based payment	-	-	-	108	-	108
<b>Balance as at 31 December 2014</b>	<b>1,221</b>	<b>7,892</b>	<b>11,308</b>	<b>378</b>	<b>155</b>	<b>20,954</b>

# Instem plc

## ACCOUNTING POLICIES

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### GENERAL INFORMATION

The principal activity of the Group is the provision of world class IT solutions to the early development healthcare market. Instem's solutions for data collection, management and analysis are used by customers worldwide, to meet the needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products. Instem plc is a Company incorporated in England and Wales under the Companies Act 2006 and domiciled in England and Wales. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD.

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretation Committee (IFRIC) interpretations as adopted by the EU and the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

### BASIS OF PREPARATION

The Group's accounting reference date is 31 December.

The acquisition of the Instem LSS Group in 2010 did not qualify as a business combination under IFRS 3 'Business Combinations' as Instem plc did not meet the definition of a business within that standard. As a consequence the transaction was treated as a pooling of interests to reflect the substance of the transaction which was that of the continuation of the existing Instem LSS Group.

The financial statements have been prepared on the historical cost basis.

The Company has taken advantage of the audit exemption for three of its non-trading subsidiaries Instem Life Science Systems Limited, Instem Scientific Solutions Limited and Logos Technologies Limited, by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these three subsidiaries.

In accordance with Section 408 of the Companies Act 2006 the company has elected not to present its own income statement. The profit for the year of the parent company is £121,000 (2013: loss of £55,000).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these consolidated financial statements.

### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the parent company, Instem plc, and its subsidiary undertakings made up to 31 December 2014 and 31 December 2013.

In preparing the consolidated financial statements, any intra-Group balances, unrealised gains and losses or income and expenses arising from intra-Group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

#### *Subsidiaries*

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group up until the date that control ceases.

### BUSINESS COMBINATIONS

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

# Instem plc

## ACCOUNTING POLICIES

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### BUSINESS COMBINATIONS (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income taxes'

Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss. Contingent consideration is recognised initially at fair value and subsequently carried at amortised cost, the difference between the gross amount and the fair value is recognised in the income statement over the period in which the liability is settled using the effective interest method

### GOING CONCERN

Having made appropriate enquiries, the directors consider that the Group has adequate resources to enable it to continue in operation for the foreseeable future. The Group has a significant proportion of recurring revenue from a well-established global customer base, supported by a largely fixed cost base. A committed working capital facility is in place to support the Group's working capital needs. The Group has net current liabilities of £3.7m at 31 December 2014, including deferred income of £6.8m (2013: £5.8m). The deferred income recurs each year on renewal of contracts, and in general the Group has either received the cash or has raised invoices for the services. As a result, this amount reverses during the financial year in the normal course of business. The Group has strong positive cash reserves, as well as the committed working capital facility of £2m referred to above which, at 31 December 2014 was £0.4m utilised. The Group has, therefore, sufficient liquid assets to cover its day-to-day needs, in addition to its strong trading cash flow generation.

The financial position of the Group, its cash flows and liquidity position are set out in the primary statements within these financial statements. Detailed projections have been made for the 12 months following the approval of the financial statements and sensitivity analysis undertaken. This work gives the directors confidence as to the future trading performance of the Group. Accordingly the directors continue to adopt the going concern basis for the preparation of the financial statements.

### REVENUE RECOGNITION

The Group follows the principles of IAS 18 'Revenue Recognition', in determining appropriate revenue recognition principles. In general, revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue comprises the value of software licence sales, SaaS subscription, installation, training, and maintenance and support services. Revenue is recognised when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered, (iii) the sales price is fixed and determinable and (iv) collectability is reasonably assured.

For software arrangements with multiple elements revenue is recognised dependent on whether vendor-specific objective evidence ('VSOE') of fair value exists for each of the elements. VSOE is determined by reference to sales made to customers on a stand-alone basis. Where there is no VSOE revenue is recognised over the full term of each contract.

Revenue from licence based products is recognised when the risks and rewards of ownership of the product are transferred to the customer i.e. when licence keys are delivered to the customer, the sales price is fixed and determinable and collectability is reasonably assured.

Revenue from software maintenance, SaaS and other time based contracts are recognised over the invoiced contract period.

# Instem plc

## ACCOUNTING POLICIES

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### REVENUE RECOGNITION (continued)

Revenue from installation and training is recognised on a percentage completion basis on fixed price contracts or as services are provided in respect of time and materials contracts

The excess of amounts invoiced over revenue is included in accruals and deferred income. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within amounts recoverable on contracts

### PROFIT FROM OPERATIONS BEFORE AMORTISATION OF INTANGIBLES ARISING ON ACQUISITION, SHARE BASED PAYMENT AND NON-RECURRING COSTS

Profit from operations before amortisation of intangibles arising on acquisition, share based payment and non-recurring costs is profit arising from the Group's normal trading activities stated before amortisation of intangibles arising on acquisition, share based payment charges, non-recurring costs, finance income, finance costs and taxation. Profit is adjusted in this way to provide a clearer measure of underlying operating performance

### PROFIT FROM OPERATIONS

Profit from operations is profit from the Group's ordinary activities stated before finance income and costs, and income tax expense

### SEGMENTAL REPORTING

IFRS 8 'Operating Segments' requires segmental information for the Group on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The Group considers that the role of chief operating decision-maker is performed by the Group's Board of directors

Since the Group is primarily providing goods and services to the global life sciences market there is only one operating segment which is monitored by the business

### FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the reporting date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions, or otherwise at the exchange rate ruling at the date of each transaction

Exchange differences arising from the translation of foreign operations are taken directly to the translation reserve. They are released into profit or loss upon disposal of the foreign operation.

# Instem plc

## ACCOUNTING POLICIES

### FOREIGN CURRENCIES (continued)

The presentational currency adopted by the Group is Sterling (GBP). The functional currencies of the principal companies in the Group are as follows:

Instem plc	– Sterling (GBP)
Instem Life Science Systems Limited	– Sterling (GBP)
Instem LSS Limited	– Sterling (GBP)
Instem LSS (North America) Limited	– US Dollars (USD)
Instem LSS Asia Limited	– Hong Kong Dollars (HKD)
Instem Information Systems (Shanghai) Limited	– Renminbi (RMB)
Instem Scientific Limited	– Sterling (GBP)
Instem Scientific Solutions Limited	– Sterling (GBP)
Instem Scientific Inc	– US Dollars (USD)
Instem India Pvt Limited	– Indian Rupees (INR)
Instem Clinical Holdings Limited	– Sterling (GBP)
Instem Clinical Limited	– Sterling (GBP)
Instem Clinical Inc	– US Dollars (USD)
Logos Technologies Limited	– Sterling (GBP)
Perceptive Instruments Limited	– Sterling (GBP)

The exchange rates used to translate the financial statements into Sterling (GBP) are as follows:

	US Dollar (USD)	Hong Kong Dollar (HKD)	Chinese Renminbi (RMB)	Indian Rupee (INR)
• Average rate for year ended 31 December 2013	1.5707	12.1832	9.6579	91.7069
• Closing rate at 31 December 2013	1.6494	12.7915	10.0096	102.1390
• Average rate for year ended 31 December 2014	1.6470	12.7733	10.1437	100.5207
• Closing rate at 31 December 2014	1.5562	12.0780	9.6686	99.0440

### FINANCE INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Finance income includes exchange gains on the translation of intra-group funding balances.

### FINANCE COSTS

Net finance costs include interest payable, exchange losses on the translation of inter-company funding balances, unwinding discount from future deferred consideration payments, finance charges on finance leases and net interest on pension scheme liabilities. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

### LEASING

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the fair value or, if lower, the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as finance lease obligations to the lessor.

# Instem plc

## ACCOUNTING POLICIES

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### LEASING (continued)

Lease payments are apportioned between finance charges and reduction of lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to finance costs in the statement of comprehensive income.

All other leases are "operating leases" and the annual rentals are charged to the statement of comprehensive income on a straight line basis over the lease term.

### SHARE-BASED PAYMENT TRANSACTIONS

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2007.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair values are measured by use of the Black-Scholes model and for options with a performance condition, Binomial or Monte Carlo models are used. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date. Market vesting conditions are linked to the Group's share price performance relative to the performance of the AIM All share index. Non-market vesting conditions are linked to trading performance and service over defined time periods.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled or settled. Where the terms of the options are modified and the modification increases the fair value or number of equity instruments granted, measured immediately before and after the modification, the incremental fair value is spread over the remaining vesting period.

Options over the Company's shares granted to employees of subsidiaries are recognised as a capital contribution by the Company to the subsidiaries.

### TAXATION

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the statement of comprehensive income because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another year. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Income tax credits for research and development activities are recognised on a cash basis or when their receipt is reasonably certain.

Deferred tax is accounted for on the basis of temporary differences arising from the differences between the tax base and accounting base of assets and liabilities.

# Instem plc

## ACCOUNTING POLICIES

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### TAXATION (continued)

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

### INTANGIBLE ASSETS

Intangible assets purchased separately from a business are capitalised at their cost.

#### *Intellectual Property, Customer Relationships and Patents*

The Group makes an assessment of the fair value of intangible assets arising on acquisitions. These include Intellectual Property, Customer Relationships and Patents. An intangible asset will be recognised as long as the asset is identifiable and its fair value can be measured reliably. An intangible asset is identifiable if it is separable or if it was obtained through contractual or legal rights. Amortisation is provided on the fair value of the asset and is calculated on a straight line basis over its useful life. The useful life for Intellectual Property, Customer Relationships and Patents is five years. Amortisation is recognised within the statement of comprehensive income. All intangible assets except Goodwill are amortised.

#### *Goodwill*

Goodwill on acquisitions, being the excess of the fair value of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired, is capitalised and tested for impairment on an annual basis.

Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to cash generating units of Instem plc, which represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### *Computer Software*

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight line basis over their useful economic lives of 3 years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its use, these costs are amortised over the estimated useful life of the software.

#### *Internally generated intangible assets*

Expenditure on research activities is recognised in the statement of comprehensive income as incurred.

Expenditure arising from the Group's development of software for sale to third parties is recognised only if all of the following conditions are met.

- an asset is created that can be identified,
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible, and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where these criteria have not been achieved, development expenditure is recognised in profit or loss in the period in which it is incurred.

Internally-generated intangible assets are amortised, once the product is available for use, on a straight-line basis over their useful lives (five to eight years).



# Instem plc

## ACCOUNTING POLICIES

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### PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and provision for impairments

Depreciation is provided on all assets so as to write off the cost less estimated residual value on a straight line basis as follows

Short leasehold property	-	Over term of lease
IT Hardware and Software	-	12½% - 33% per annum

Depreciation is recognised within operating expenses

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income

### IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

The carrying value of property, plant and equipment and intangible assets (excluding goodwill) is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable

At each reporting date the Group reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss

Where the asset does not generate cash flows that are independent from other assets the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately

### INVENTORY

Inventory is stated at the lower of cost and net realisable value. Inventory includes billable employee expenses. These are stated at the lower of amortised cost and net realisable value

Provision is made where necessary for obsolete and slow moving inventory

# Instem plc

## ACCOUNTING POLICIES

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### FINANCIAL INSTRUMENTS

#### *Classification of financial instruments*

Financial instruments are classified as financial assets, financial liabilities or equity instruments

#### *Recognition and valuation of financial assets*

Financial assets are initially recorded at their fair value net of transaction costs. At each reporting date, the Group reviews the carrying value of its financial assets to determine whether there is objective evidence of an indication of impairment. If any such indication exists the recoverable amount is estimated and any identified impairment loss is recognised in the statement of comprehensive income.

#### *Investments*

Investments in subsidiaries, associates and joint ventures are recorded at cost in the statement of financial position. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the statement of comprehensive income in the period they occur.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and cash deposits which are readily convertible to a known amount of cash. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand as these form an integral part of Group cash management.

#### *Trade receivables*

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an impairment provision account and any impairment loss is recognised in the statement of comprehensive income.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### *Bank borrowings and loan notes*

Interest-bearing loan notes and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest. Finance charges are accounted for on an accruals basis to the statement of comprehensive income. Overdrafts are offset against cash and cash equivalents when the Group has a legal right of off-set.

#### *Trade and other payables*

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost.

#### *Ordinary share capital*

For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

#### *Derivative financial instruments*

The Group's activities expose it primarily to foreign currency risk. The Group uses forward contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

# Instem plc

## ACCOUNTING POLICIES

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### FINANCIAL INSTRUMENTS (continued)

The Group does not adopt the hedge accounting provisions and as such, these derivatives are classified as financial instruments held for trading in accordance with IAS 39. They are initially and subsequently measured at fair value with gains and losses recognised in the statement of comprehensive income.

### RETIREMENT BENEFITS

#### *Defined contribution schemes*

A defined contribution scheme is a pension plan under which the Group pays a fixed contribution to a scheme with an external provider. The amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the total of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either other payables or other receivables in the statement of financial position. The Group has no further payment obligations once the contributions have been paid.

#### *Defined benefit schemes*

A defined benefit scheme is a pension plan under which the Group pays contributions in order to fund a defined amount of pension that the employees under the scheme will receive on retirement. The cost of providing the benefits is determined using the projected unit credit method with actuarial valuations being carried out regularly.

An asset or liability is recognised equal to the present value of the defined benefit obligation, adjusted for unrecognised past service costs and reduced by the fair value of plan assets.

Actuarial gains and losses are recognised in the statement of other comprehensive income in the year in which they occur, whilst expected returns on plan assets, servicing costs and financing costs are recognised in the statement of comprehensive income.

The rate used to discount the benefit obligations is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

Changes made to IAS19 that came into force for accounting periods on or after 1 January 2013 are as follows:

- The “finance cost” which was previously the difference between the interest on liabilities and expected return on assets is replaced by a “net interest cost”. This means that the expected return on assets is effectively based on the discount rate with no allowance made for any outperformance expected from the Scheme’s asset holding.
- Actual administration expenses are required to be included in the Statement of Financial Position.

### PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

The time value of money is not expected to be material and therefore future outflows have not been discounted.

# Instem plc

## ACCOUNTING POLICIES

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### ADOPTION OF IFRS

The Group and Company financial statements have been prepared in accordance with IFRS, IAS and International Financial Reporting Interpretations Committee (IFRICs) effective as at 31 December 2014. The Group and Company have not chosen to adopt any amendments or revised standards early

### IFRSs ISSUED BUT NOT YET EFFECTIVE

The following IFRSs, IASs and IFRICs have been issued, are not yet effective, and have not been adopted by the Group or the Company in these financial statements. The directors do not believe the adoption will have a material impact on the business

IAS 1 'Presentation of financial statements' - effective 1 January 2016

IFRS10 'Consolidated financial statements' - effective 1 January 2016

IFRS 12 'Disclosure of Interests in Other Entities' - effective 1 January 2016

IAS 28 'Investments in associates' effective - 1 January 2016

IFRS 15 'Revenue from contracts with customers' effective - 1 January 2017

IFRS 9 'Financial Instruments' effective - 1 January 2018

### IFRSs ADOPTED IN THE YEAR

The following IFRSs, IASs and IFRICs have been adopted for the first time in the year. As expected their adoption has not had a material impact on these financial statements

IFRS 9 'Financial Instruments' – effective 1 January 2014

IFRS 10 'Consolidated financial statements' – effective 1 January 2014

IFRS 11 'Joint Arrangements' – effective 1 January 2014

IFRS 12 'Disclosure of interests in other entities' – effective 1 January 2014

IFRS 14 'Regulatory deferral accounts' – effective 1 January 2014

IAS 27 'Separate financial statements' (Amended) – effective 1 January 2014

IAS 28 'Interests in Associates and Joint Ventures' (Amended) – effective 1 January 2014

IAS 32 'Financial Instruments Presentation' – effective 1 January 2014

IAS 36 'Impairment of Assets' – effective 1 January 2014

IAS 39 'Financial Instruments Recognition and measurement' – effective 1 January 2014

IFRIC 21 'Leases' – effective 1 January 2014

IFRIC 14 — IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction was effective for accounting periods beginning after 1 January 2008. The directors have considered issues arising from this amendment to IAS 19 and feel that it is unlikely that the schedule of contributions agreed with the trustees of the LSS pension scheme will result in an IAS19 surplus in the scheme

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 1 SEGMENTAL REPORTING

For management purposes, the Group is currently organised into one operating segment – Global Life Sciences

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis

	REVENUE	
	2014 £000	2013 £000
INFORMATION BY PRODUCT TYPE		
Licence fees	2,734	2,282
Annual support fees	6,984	6,307
SaaS subscription fees	1,822	1,543
Professional services	1,763	1,175
Funded development initiatives	126	54
	<u>13,429</u>	<u>11,361</u>

	REVENUE	
	2014 £000	2013 £000
INFORMATION BY GEOGRAPHICAL LOCATION		
UK	2,141	2,496
Rest of Europe	2,699	1,991
USA and Canada	7,583	5,871
Rest of World	1,006	1,003
	<u>13,429</u>	<u>11,361</u>

	NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION	
	2014 £000	2013 £000
INFORMATION BY GEOGRAPHICAL LOCATION		
UK	12,664	13,120
USA and Canada	16	14
Rest of World	22	18
	<u>12,702</u>	<u>13,152</u>

### MAJOR CUSTOMERS

No customer represents more than 10% of Group revenue (2013: nil)

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2 PROFIT FROM OPERATIONS

	2014 £000	2013 £000
Profit from operations includes the following significant items		
Depreciation and amounts written off property, plant and equipment		
Charge for the year		
Owned assets	127	96
Amortisation of intangible assets	937	620
Research and development costs	1,026	1,379
Operating lease rentals		
Plant and machinery	4	4
Land and buildings	252	376
	<hr/>	<hr/>
Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services		
Audit services		
- Statutory audit of parent and consolidated financial information	16	15
Other services		
Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	43	38
Audit related assurance services	21	15
Taxation services - Compliance	15	11
Taxation services - Advisory	31	8
Corporate finance services	-	25
	<hr/>	<hr/>
	126	112
	<hr/>	<hr/>
The following table analyses the nature of expenses	2014 £000	2013 £000
Staff costs (see note 5)	7,536	6,235
Depreciation (see note 11)	127	96
Operating lease rentals	256	380
Software maintenance charges	374	333
Licence costs	188	110
Other expenses	3,218	2,531
	<hr/>	<hr/>
Total cost of sales, distribution costs, administrative expenses and other operating expenses	11,699	9,685
	<hr/>	<hr/>

### NON-RECURRING COSTS

The non-recurring costs included a net charge of £0.06m relating to a trade dispute, net of insurance proceeds of £0.09m, and £0.07m of professional fees associated with the Perceptiv Instruments acquisition in 2013

**Instem plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**3 FINANCE INCOME**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Bank interest	9	61
Foreign exchange gains	-	84
	<u>9</u>	<u>145</u>

**4 FINANCE COSTS**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Bank loans and overdrafts	65	9
Unwinding discount	46	63
Net interest charge on pension scheme	152	135
Foreign exchange losses	96	-
	<u>359</u>	<u>207</u>

**5 EMPLOYEES**

	<b>2014</b>	<b>2013</b>
	<b>Number</b>	<b>Number</b>
Average monthly number (including non-executive directors)		
<i>By role</i>		
Directors, administration and supervision	42	39
Software design, sales and customer service	98	84
	<u>140</u>	<u>123</u>
	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Employment costs		
Wages and salaries	6,382	5,207
Social security costs	590	514
Other pension costs	564	514
	<u>7,536</u>	<u>6,235</u>

A charge of £0.1m (2013: £0.1m) arose in respect of share based payment

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 6 SHARE BASED PAYMENT

#### *Equity-Settled Share Option Plan*

Under the approved and unapproved option schemes, the Remuneration Committee can grant options to employees of the Group. Options are granted with a fixed exercise price at the date of grant. The contractual life is generally ten years from the date of grant. Options generally become exercisable after three years. Certain options issued to directors and senior employees carry market based performance conditions.

	2014		2013	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at the beginning of the year	807,839	1.71	708,013	1.82
Granted	-	-	99,826	0.90
Lapsed	(7,507)	2.22	-	-
Outstanding at end of the year	800,332	1.71	807,839	1.71
Exercisable at 31 December	640,507	1.86	491,996	1.75

The options outstanding at 31 December 2014 and 31 December 2013 had exercise prices of £0.90, £1.115, £1.750, £1.760, £2.215 and £2.220 and a weighted average remaining contractual life of 6 years 4 months (2013: 7 years 4 months).

New options are valued using the Black-Scholes option-pricing model and for performance conditions, the Binomial or Monte Carlo models. The fair market value of option awards granted during the year has been estimated using the following key assumptions – note there were no options granted during 2014.

	2014	2013
Average exercise price	n/a	£0.90
Average market price	n/a	£1.35
Average vesting period (years)	n/a	3
Expected volatility	n/a	17.7%
Option life (years)	n/a	10
Expected life	n/a	6
Risk free rate	n/a	1.14%
Expected dividend yield	n/a	0%
Expected lapse rate	n/a	0%
Fair value of options	n/a	£0.25

Expected volatility was determined by calculating the historical volatility of a comparable business, prior to the period when the Company's shares were listed on the AIM market. Volatility since listing has been calculated using the daily mid-market share price. The expected life used in the model has been adjusted, based upon the management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.



# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 6 SHARE BASED PAYMENT (continued)

Options over 556,599 shares (2013. 564,106 shares) incorporate a market performance condition based on the Company's share price

The fair value of options granted in the year is £nil (2013 £0.02m)

Subsequent to the year end, on 11 February 2015 81,168 share options were granted to employees with an exercise price of £0.10 each

7 DIRECTORS' EMOLUMENTS	2014 £000	2013 £000
<i>Amounts payable by Instem plc.</i>		
Emoluments	92	92
<i>Amounts payable by subsidiary companies</i>		
Emoluments	269	267
Money purchase pension contributions	35	37
Total emoluments	396	396
Number of directors to whom retirement benefits are accruing under	2014 Number	2013 Number
Defined contribution schemes	2	2

The highest paid director is shown in the Directors' Remuneration Report.

8 TAXATION	2014 £000	2013 £000
Income taxes recognised in profit or loss		
Current tax:		
UK corporation tax on profits of the year	-	42
Foreign tax	272	147
Foreign tax in respect of previous years	239	(227)
Adjustments in respect of previous years	(171)	121
Adjustments in respect of R&D tax credit	(92)	-
Total current tax	248	83
Deferred tax:		
Current year charge	(30)	11
Adjustment in respect of previous years	(103)	11
Retirement benefit obligation	(53)	64
Total deferred tax	(186)	86
Total income tax recognised in the current year	62	169

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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### 8 TAXATION (continued)

	2014 £000	2013 £000
The income tax expense can be reconciled to the accounting profit as follows:		
Profit before tax	212	698
	<hr/>	<hr/>
Profit before tax multiplied by standard rate of corporation tax in the UK 21.5% (2013 23.25%)	46	162
Effects of		
Expenses not deductible for tax purposes	33	50
Fixed asset timing differences	(9)	1
Differences in overseas tax rates	109	63
Adjustments in respect of prior years	(35)	(95)
Tax losses utilised in respect of subsidiaries	-	(15)
Tax losses (utilised)/carried forward	(82)	3
	<hr/>	<hr/>
Total income tax expense recognised in profit or loss	62	169
	<hr/>	<hr/>

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 9 INTANGIBLE ASSETS

	Goodwill	Software	Intellectual property	Customer Relationships	Patents	Total
<i>Group</i>	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2013	6,356	1,486	819	325	21	9,007
Additions from continuing operations	-	407	-	-	-	407
Additions from acquisitions in the period	3,031	-	1,403	632	-	5,066
At 31 December 2013	9,387	1,893	2,222	957	21	14,480
Additions from continuing operations	-	369	-	-	-	369
Additions from acquisitions in prior period	120	-	-	-	-	120
At 31 December 2014	9,507	2,262	2,222	957	21	14,969
Amounts written off						
At 1 January 2013	-	546	301	119	7	973
Amortisation expense	-	226	303	87	4	620
At 31 December 2013	-	772	604	206	11	1,593
Amortisation expense	-	297	445	191	4	937
At 31 December 2014	-	1,069	1,049	397	15	2,530
Net book value						
At 31 December 2013	9,387	1,121	1,618	751	10	12,887
At 31 December 2014	9,507	1,193	1,173	560	6	12,439

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £2.3m (2013 £1.9m) with accumulated amortisation of £1.1m (2013 £0.8m). Software additions for the year include £312,000 relating to internal development (2013 £316,000).

The additions from acquisitions in prior period of £120,000 arose from deferred income in Perceptive Instruments Limited not previously recognised on initial acquisition.

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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### 9 INTANGIBLE ASSETS (continued)

#### Impairment of goodwill

Goodwill amounting to £5 858m (2013 £5 858m) relates to a cash generating unit (CGU), being the Instem business acquired on the management buyout of Instem LSS Limited on 27 March 2002. Goodwill amounting to £0 498m (2013 £0 498m), relates to a CGU, being the BioWisdom Limited (now Instem Scientific Limited) business acquired on 3 March 2011. Goodwill amounting to £2 482m (2013 £2 482m), relates to a CGU, being the Logos Holdings Limited (now Instem Clinical Holding Limited) business acquired on 10 May 2013. Goodwill amounting to £0 669m (2013 £0 549m) relates to a CGU, being the Perceptive Instruments Limited business acquired on 21 November 2013.

During the period, goodwill was tested for impairment in accordance with IAS 36 "Impairment of Assets". The recoverable amount of the CGU exceeded the carrying amounts of goodwill. The recoverable amount for each of the CGU has been measured using a value-in-use calculation and as such no impairment was deemed necessary.

The key assumptions used, which are based on management's past experience, for the value-in-use calculations are those regarding the discount rates, growth rates and direct costs during the period. The value-in-use calculations are based on the future cash flows from approved forecasts for two years which have been extrapolated to cover a period of five years, and then a terminal value calculated using the Gordon Growth Model, to take account of the software development cycle and the high percentage of recurring revenues from the customer base. At 31 December 2014 a pre-tax discount rate of 11.1% (2013 13.0%) was used in the value-in-use calculation based on the Group's cost of capital.

Projected cash flows were based on detailed profit and cashflow projections through to 2015 with a 2.5% assumption of growth beyond 2015. The projections were based on reasonable assumptions in respect of business growth rates, payroll and other cost increases and related cashflow impacts. No indication of impairment was found when assumptions of growth of 2.5% beyond 2015 were used.

The recoverable amount of the Instem CGU exceeds the carrying amount of this CGU by 168%, for the Instem Scientific CGU by 580%, for Instem Clinical CGU by 117% and, Perceptive Instruments CGU by 152%. The directors consider the discount rate and revenues to be the most sensitive assumptions used in the impairment reviews. An increase in the discount rate of 36%, or a reduction in certain revenues of in excess of 5%, would result in the recoverable amount of the Instem CGU being equal to its carrying amount. An increase of 68% in the Instem Scientific discount rate, or a reduction in revenues of 20% would result in the recoverable amount of the CGU being equal to its carrying amount. An increase of 36% in the Instem Clinical discount rate, or a reduction in revenues of 16% would result in the recoverable amount of the CGU being equal to its carrying amount. An increase of 28% in the Perceptive Instruments discount rate, or a reduction in revenues of 25% would result in the recoverable amount of the CGU being equal to its carrying amount.

Amortisation expenses are disclosed in the Consolidated Statement of Comprehensive Income.

**Instem plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**10 INVESTMENTS**

	<b>£000</b>
<i>Company</i>	
Cost at beginning of year	23,024
Additions	108
	<hr/>
At end of year	<b>23,132</b> <hr/>

The company has four wholly-owned subsidiaries and ten wholly-owned sub-subsidiaries, details of which are as follows

<b>Company</b>	<b>Activity</b>	<b>Ownership</b>
Instem Life Science Systems Limited (company number 04339129) England and Wales	Holding company	100% by Instem plc
Instem LSS Limited (company number 03548215) England and Wales	Software development, sales, sales support and administrative support	100% by Instem Life Science Systems Limited
Instem LSS (North America) Limited (company number 02126697) England and Wales	Sales, sales support and administrative support	100% by Instem LSS Limited
Instem LSS (Asia) Limited (company number 1371107) Hong Kong	Holding company	100% by Instem LSS Limited
Instem Information Systems (Shanghai) Limited (company number 310115400257075) Shanghai, PRC	Sales, sales support and service	100% by Instem LSS (Asia) Limited
Instem Scientific Limited (company number 03861669) England and Wales	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem plc
Instem Scientific Solutions Limited (company number 03598020) England and Wales	Dormant	100% by Instem Scientific Limited
Instem Scientific Inc USA	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem Scientific Limited
Instem India Pvt Limited (company number U73100MH2012FTC231951) India	Software development	99.9% by Instem LSS Limited 0.1% by Instem LSS (NA) Limited

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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### 10 INVESTMENTS (continued)

Company	Activity	Ownership
Instem Clinical Holdings Limited (company number 05840032) England and Wales	Holding of intellectual property rights and investment in group companies	100% by Instem plc
Instem Clinical Limited (company number 06959053) England and Wales	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Instem Clinical Inc. USA	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Logos Technologies Limited (company number 05836842) England and Wales	Dormant	100% by Instem Clinical Holdings Limited
Perceptive Instruments Limited (company number 02498351) England and Wales	Development, manufacture and supply of software and hardware products for <i>in vitro</i> study data collection and study management in the genetic toxicology, microbiology and immunology markets	100% by Instem plc

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 11 PROPERTY, PLANT AND EQUIPMENT

<i>Group</i>	Short leasehold property £000	IT Hardware & Software £000	Total £000
<b>Cost</b>			
At 1 January 2013	14	1,650	1,664
Additions	-	171	171
Disposals	-	(1)	(1)
Acquisitions through bus combinations	-	5	5
Exchange adjustment	-	(4)	(4)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	14	1,821	1,835
Additions	60	64	124
Exchange adjustment	-	4	4
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2014</b>	<b>74</b>	<b>1,889</b>	<b>1,963</b>
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At 1 January 2013	(8)	1,485	1,477
Reclassification	12	(12)	-
Depreciation expense	4	92	96
Disposal	-	(1)	(1)
Exchange adjustment	-	(2)	(2)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	8	1,562	1,570
Depreciation expense	17	110	127
	1	2	3
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2014</b>	<b>26</b>	<b>1,674</b>	<b>1,700</b>
	<hr/>	<hr/>	<hr/>
<b>Net Book value</b>			
As 31 December 2013	6	259	265
	<hr/>	<hr/>	<hr/>
<b>As 31 December 2014</b>	<b>48</b>	<b>215</b>	<b>263</b>
	<hr/>	<hr/>	<hr/>

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 12 INVENTORIES

	2014 £000	2013 £000
<i>Group</i>		
Raw materials	21	17
Work in progress	485	290
	<u>506</u>	<u>307</u>
	2014 £000	2013 £000
Total gross inventories	<u>506</u>	<u>307</u>

### 13 TRADE AND OTHER RECEIVABLES

<i>Group</i>	2014 £000	2013 £000
Trade receivables	2,705	1,990
Amounts recoverable on contracts	1,257	425
Prepayments and accrued income	470	493
	<u>4,432</u>	<u>2,908</u>
<i>Company</i>	2014 £000	2013 £000
Amounts owed by group companies	2,214	1,225
Other receivables	17	18
	<u>2,231</u>	<u>1,243</u>

A provision for impairment is made where there is objective evidence of impairment which is usually indicated by a delay in the expected cash flows or non-payment from customers

An analysis of the provision for impairment of receivables is as follows:	2014 £000	2013 £000
<i>Group</i>		
At beginning of year	-	4
Charge/(credit) for the year	23	(4)
	<u>23</u>	<u>-</u>
At end of year	<u>23</u>	<u>-</u>



# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 13 TRADE AND OTHER RECEIVABLES (continued)

The average credit period taken on sale is 38 days (2013 31 days) No interest is charged on overdue receivables

Before accepting any new significant customer, the Group obtains relevant credit references to assess the potential customer's credit quality Credit limits are defined by customer

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

The age profile of the net trade receivables for the Group at the year-end was as follows

<i>Group</i> 2013	Current	0-30 days	Debt age 31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts					
Value (£000)	1,619	488	94	214	2,415
%	67	20	4	9	100
<i>Group</i> 2014	Current	0-30 days	Debt age 31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts					
Value (£000)	3,359	470	45	88	3,962
%	85	12	1	2	100

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above The Group does not hold any collateral as security

An analysis of trade and other receivables by currency is as follows

	2014 £000	2013 £000
<i>Group</i>		
Sterling	1,713	1,083
Euro	341	67
US Dollar	2,162	1,598
Renminbi	202	156
Other	14	4
	<u>4,432</u>	<u>2,908</u>

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

14	CASH AND CASH EQUIVALENTS	2014 £000	2013 £000
	<i>Group</i>	10,674	11,051
	Cash at bank	(8,998)	(8,998)
	Bank overdraft		
		<u>1,676</u>	<u>2,053</u>
		2014 £000	2013 £000
	<i>Company</i>	97	277
	Cash at bank		

The Group's committed overdraft facility has a net limit of £2,000,000 and a gross limit of £9,000,000. Interest is charged on the bank overdraft at 2.75% above base rate. The bank overdraft is secured by fixed and floating charges over certain of the Group's assets. The bank facility is reviewed in April each year.

There is a debenture in favour of National Westminster Bank Plc, dated 13 April 2011, secured over the assets of the group by way of fixed and floating charges, in respect of the Group's overdraft facility.

An analysis of cash and cash equivalents by currency is as follows

	2014 £000	2013 £000
<i>Group</i>		
Sterling	(367)	601
Euro	153	82
US Dollar	1,035	733
Renminbi	842	619
Other	13	18
	<u>1,676</u>	<u>2,053</u>
	2014 £000	2013 £000
<i>Company</i>		
Sterling	97	277

The carrying amount of these assets approximates to their fair value.

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

15	TRADE AND OTHER PAYABLES	2014 £000	2013 £000
	<i>Group</i>		
	<i>Current</i>		
	Trade payables	416	525
	Other taxation and social security costs	203	192
	Accruals	745	743
	Deferred income	6,811	5,776
		<u>8,175</u>	<u>7,236</u>
		2014 £000	2013 £000
	<i>Company</i>		
	<i>Current</i>		
	Trade payables	16	80
	Amounts owed to group companies	2,270	1,080
	Accruals	36	104
		<u>2,322</u>	<u>1,264</u>

An analysis of trade and other payables by currency is as follows

	2014 £000	2013 £000
<i>Group</i>		
Sterling	3,762	3,500
US Dollar	4,099	3,531
Renminbi	314	202
Other	-	3
	<u>8,175</u>	<u>7,236</u>
	2014 £000	2013 £000
<i>Company</i>		
Sterling	2,322	1,264

The directors consider that the carrying amount of trade and other payables approximates to fair value due to their short maturities

### 16 CURRENT TAXATION

The Group current tax payable of £231,000 (2013 £7,000) represents the amount of income taxes payable in respect of current and prior years

The Company current tax payable of £nil (2013 £120,000) represents the amount of income taxes payable in respect of current and prior years

**Instem plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**17 FINANCIAL LIABILITIES**

<i>Group and Company</i>	<b>Total</b>	<b>Less than one year</b>	<b>One to two years</b>	<b>More than two years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>2013</b>				
Deferred consideration	3,086	1,250	980	856
	<b>Total</b>	<b>Less than one year</b>	<b>One to two years</b>	<b>More than two years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>2014</b>				
Deferred consideration	1,881	1,600	281	-
Loan note	303	303	-	-
	<b>2,184</b>	<b>1,903</b>	<b>281</b>	<b>-</b>

**Deferred Consideration**

The deferred consideration relates to the acquisitions of Instem Clinical Holdings Limited and Perceptive Instruments Limited. The directors believe that the carrying value of the deferred consideration for Perceptive Instruments approximates to the fair value and that the carrying value of the deferred consideration for Instem Clinical Holdings Limited has been discounted by an appropriate rate to take account of the time to maturity

The range of possible deferred consideration payable is between nil and £3.5m with the amount provided as £1,881,000 as shown above

**Loan note**

A Loan Note amounting to £298,000 was issued during the year as part of the deferred consideration payable. The 6-month Note accrued interest at 4% and the total due of £303,000, including interest, was paid in full in January 2015

**18 FINANCIAL INSTRUMENTS**

All financial instruments held by the Group, as detailed in this note, are classified as "Loans and Receivables" (trade and other receivables, excluding prepayments, and cash and cash equivalents), "Financial Liabilities Measured at Amortised Cost" (trade and other payables, excluding statutory liabilities, and financial liabilities) and "Fair value through profit and loss" (other financial liabilities which reflect derivative contracts) under IAS 39 'Financial Instruments: Recognition and Measurement'

**FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. Market risk includes interest rate risk, foreign exchange rate risk and price risk. The main financial risks managed by the Group, under policies approved by the Board, are interest rate risk, foreign currency risk, liquidity risk and credit risk.

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2014

#### 18 FINANCIAL INSTRUMENTS (Continued)

The Group has in place risk management policies that seek to limit the adverse effects on the financial performance of the Group by using various instruments and techniques. Derivative financial instruments are only used to hedge exposures arising in respect of underlying business requirements and not for any speculative purpose.

##### Foreign exchange risk

The Group operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into sterling. The currencies giving rise to this risk are primarily US dollars. The Group has both cash inflows and outflows in this currency that create a natural hedge.

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's cash inflows and outflows in a foreign currency. The Group also hedges any material foreign currency transaction exposure. During the year the Group entered into a US dollar hedging arrangement with a fixed forward contract which expired prior to the reporting date.

Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. The assumption in 2014 was based on a forecast that the US dollar to sterling rate would be 1.60. A 10% decrease in the value of Sterling against the US dollar would result in an increase in the Group's profit before tax by approximately £0.1m.

##### Interest rate risk

The Group operates an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings.

The Group's bank facility does not allow the US Dollar cash balances to generate interest therefore the Group transfers funds from the US dollar account into the sterling account. Currency swaps have been utilised to maximise the interest gains whilst minimising foreign exchange risks.

As at 31 December 2014 indications are that the UK bank base interest rate will not materially differ from 0.5% over the next 12 months. On the basis of the floating net cash position at 31 December 2014 and assuming no other changes occur (such as changes in currency exchange rates) and that no further interest rate management action is taken, the stable interest rates will not have an impact on net interest income/(expense).

2013	Fixed rate	Floating rate	Non- interest bearing	Total
	£000	£000	£000	£000
<i>Group</i>				
Trade and other receivables	-	-	2,415	2,415
Cash and cash equivalents	-	2,053	-	2,053
Trade and other payables	-	-	(1,268)	(1,268)
Deferred consideration	-	-	(3,086)	(3,086)
	-	2,053	(1,939)	114

For the year ended 31 December 2014

2014	Fixed rate	Floating rate	Non- interest bearing	Total
	£000	£000	£000	£000
<i>Group</i>				
Trade and other receivables	-	-	3,962	3,962
Cash and cash equivalents	-	1,676	-	1,676
Trade and other payables	-	-	(1,161)	(1,161)
Deferred consideration	-	-	(1,881)	(1,881)
Loan note	(303)	-	-	(303)
	<hr/>	<hr/>	<hr/>	<hr/>
	(303)	1,676	920	(2,293)

2013	Fixed rate	Floating rate	Non- interest bearing	Total
	£000	£000	£000	£000
<i>Company</i>				
Trade and other receivables	-	-	1,243	1,243
Cash and cash equivalents	-	277	-	277
Trade and other payables	-	-	(1,264)	(1,264)
Deferred consideration	-	-	(3,086)	(3,086)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	277	(3,107)	(2,830)

2014	Fixed rate	Floating rate	Non- interest bearing	Total
	£000	£000	£000	£000
<i>Company</i>				
Trade and other receivables	-	-	2,231	2,231
Cash and cash equivalents	-	97	-	97
Trade and other payables	-	-	(2,322)	(2,322)
Deferred consideration	-	-	(1,881)	(1,881)
Loan note	(303)	-	-	(303)
	<u>(303)</u>	<u>97</u>	<u>(1,972)</u>	<u>(2,178)</u>

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2014

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#### 18 FINANCIAL INSTRUMENTS (continued)

##### **Credit risk**

Management aims to minimise the risk of credit losses.

The Group's financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and the Group has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness

The amounts presented in the statement of financial position are net of impairment provisions, estimated by the Group's management based on prior experience and their assessment of the present value of estimated future cash flows. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group generates external revenue from no customers which individually amount to more than 10% of the Group revenue (2013 nil).

The Group's exposure to losses from defaults on trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees to be invoiced and paid annually in advance

Note 13 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets

##### **Liquidity risk**

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

The Group's objective is to ensure that adequate facilities are available through use of bank overdrafts and finance leases. The Group manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs

The Group regularly monitors its available headroom under its borrowing facilities. At 31 December 2014, its £2.0m committed bank facility was drawn down by £0.4m, with £1.6m available (2013 £2.0m available)

In respect of the Group's interest-bearing financial liabilities, the table in note 18 includes details at the reporting date of the periods in which they mature

#### 19 DEFERRED TAX

	2014	2013
<i>Group</i>	£000	£000
Deferred tax assets		
Amounts due to be recovered within 12 months	-	-
Amounts due to be recovered after 12 months	574	388
	<hr/>	<hr/>
Total deferred tax	574	388
	<hr/>	<hr/>

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**19 DEFERRED TAX (continued)**

The movement in the period in the Group's net deferred tax asset position was as follows

	2014		2013	
	£'000	£'000	£'000	£'000
At beginning of the year		388		732
Charge to income for the year		83		(75)
Actuarial losses	124		30	
Tax losses	(124)		158	
Accelerated tax depreciation	-		(446)	
Net credit/(charge) to equity		-		(258)
Adjustments in respect of prior years		103		(11)
At end of the year		574		388

The movements on deferred taxation for the year ended 31 December 2013 includes balances which arose from acquisitions made in that period.

The following are the major deferred tax assets and liabilities recognised by the Group and the movements thereon during the year

<i>Deferred tax asset/(liability)</i>	Accelerated tax depreciation £000	Tax losses £000	Retirement benefit obligations £000	Other timing differences £000	Total £000
At 1 January 2013	(358)	345	735	10	732
Credit/(charge) to profit or loss for the year	127	(143)	(64)	5	(75)
(Charge)/credit to equity for the year	(446)	158	30	-	(258)
Adjustments in respect of prior years	(9)	-	-	(2)	(11)
At 31 December 2013	(686)	360	701	13	388
Credit/(charge) to profit or loss for the year	58	76	(53)	2	83
(Charge)/credit to equity for the year	-	(124)	124	-	-
Adjustments in respect of prior years	(73)	172	4	-	103
At 31 December 2014	(701)	484	776	15	574

Management have recognised deferred tax assets in relation to tax losses based on forecast profitability of the Group companies concerned

Unrecognised tax losses not included at 31 December 2014 were £4,808,000 (2013 £4,883,000) due to uncertainty over the timing of the recoverability of these losses



# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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### 20 RETIREMENT BENEFIT OBLIGATIONS

The Group has four active defined contribution schemes and a closed defined benefit scheme

#### *Defined contribution pension schemes*

*Group Personal Pension Plan* - the scheme was created on 31 December 2008. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5%. The employer also contributes to the Scheme for former members of Instem LSS Pension Scheme at rates varying from 5% to 18%. Employer contributions for the year ended 31 December 2014 were £0.47m (2013: £0.40m).

*Contracted In Money Purchase Scheme (CIMP)* - the Scheme was created on 31 December 2008. The Scheme is a non-contributory scheme created for former members of the Instem LSS Pension Scheme who are US residents. Employer contributions for the year ended 31 December 2014 were £0.03m (2013: £0.03m).

*Instem LSS (North America) Limited 401k Plan* - the scheme was created for the benefit of employees of Instem LSS (North America) Limited in the USA. The Scheme is a contributory money purchase scheme with the employer matching contributions to the scheme to a maximum of 4.8%. Employer contributions for the year ended 31 December 2014 were £0.07m (2013: £0.09m).

*BioWisdom GPP Scheme* - the Scheme is a Group Personal Pension arrangement with Winterthur Life (now part of Friends Life) and was set up in 2001. Employee members must contribute at least 3% of basic salary and the employer contributes up to a maximum of 6%. Employer contributions for the year ended 31 December 2014 were £0.02m (2013: £0.03m).

*Perceptive Instruments Limited* - The Group makes contributions to personal pension arrangements of certain employees. During the year ended 31 December 2014 employer contributions to these arrangements totalled £0.02m (2013: £nil).

#### *Defined benefit pension scheme*

The Group also operates a pension scheme providing benefits based on final pensionable pay. This scheme was closed to new members with effect from 8 October 2001 and the rate of future benefit accrual reduced from 1/60<sup>th</sup> of final pensionable pay per year of service to 1/80<sup>th</sup> with effect from 6 April 2003. The scheme closed to future accrual on 31 December 2008.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Group must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in the accounts. The scheme is in deficit and no contributions payable under a minimum funding requirement are considered potentially refundable or utilisable as a reduction of future contributions. IFRIC interpretation 14 is deemed to be not applicable to the Group.

The Scheme is managed by a Board of Trustees appointed in part by the Group and part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the Scheme, administering benefit payments and investing the Scheme assets. The Trustees delegate some of these functions to their professional advisers where appropriate.

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2014

#### 20 RETIREMENT BENEFIT OBLIGATIONS (continued)

The Scheme exposes the Group to a number of risks

- **Investment risk.** The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term the short-term volatility can cause additional funding to be required if deficit emerges
- **Interest rate risk.** The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way
- **Inflation risk.** A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging
- **Mortality risk.** In the event that members live longer than assumed a deficit will emerge in the Scheme

There were no plan amendments, curtailments or settlements during the period.

The latest full actuarial valuation was carried out at 5 April 2011 and was updated to 31 December 2014 by a qualified independent actuary

The following schedule of contributions was prepared by the Trustees of the Instem LSS Pension Scheme ('the Scheme') after obtaining the advice of the Scheme Actuary appointed by the Trustees and was intended to clear the deficit in the Scheme at the time it was agreed in July 2012

Period ended	Monthly payment (payable in each month except the final month in each period) £'000	Balancing payment due before period end £'000
31 March 2015	15	247
31 March 2016	15	262
31 March 2017	15	277
31 March 2018	15	292
31 March 2019	15	308
31 March 2020	15	325
15 October 2020	15	206

The employer pays the Pension Protection Fund levy each year in respect of the scheme. It is intended that all other expenses associated with the running of the Scheme will be met from the Scheme's assets

Changes made to IAS19 that came into force for accounting periods on or after 1 January 2013 were as follows

- The "finance cost" which was previously the difference between the interest on liabilities and expected return on assets is replaced by a "net interest cost". This means that the expected return on assets is effectively based on the discount rate with no allowance made for any outperformance expected from the Scheme's asset holding.
- Actual administration expenses are required to be included in the Statement of Financial Position.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on bonds are based on gross redemption yields at the reporting date whilst the expected returns on the equity and property investments reflect the long-term real rates of return experienced in the respective markets

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20 RETIREMENT BENEFIT OBLIGATIONS (continued)

	2014 %	2013 %
Discount rate	3.8	4.6
Inflation	3.1	3.5
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	2.8	3.5
Rate of increase in pensions in deferment	3.1	3.5
<i>Life Expectancy assumption (number of years from the age of 65)</i>	<b>Years</b>	<b>Years</b>
Male currently aged 45	24.7	25.0
Female currently aged 45	25.8	26.3
Male currently aged 65	23.4	23.7
Female currently aged 65	24.3	24.8
	<hr/>	<hr/>
<b>ANALYSIS OF AMOUNT CHARGED TO OPERATING EXPENSES</b>	<b>2014 £000</b>	<b>2013 £000</b>
Current service cost	-	-
Past service cost	-	-
	<hr/>	<hr/>
Total operating charge	-	-
	<hr/>	<hr/>
<b>ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS</b>	<b>2014 £000</b>	<b>2013 £000</b>
Interest on pension scheme assets	327	273
Interest on pension scheme liabilities	(479)	(408)
	<hr/>	<hr/>
Net finance charge	(152)	(135)
	<hr/>	<hr/>

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20 RETIREMENT BENEFIT OBLIGATIONS (continued)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	2014 £000	2013 £000
Losses/(Gains) on pension scheme assets in excess of interest	7	(612)
Experience losses arising on scheme liabilities	138	-
(Gains)/losses from changes to demographic assumptions	(163)	279
Losses from changes to financial assumptions	639	920
	<u>621</u>	<u>587</u>

Actuarial loss recognised in other comprehensive expense

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	2014 £000	2013 £000
Opening defined benefit obligation	10,529	9,200
Interest cost	479	408
Benefits paid	(217)	(278)
Experience loss on defined benefit obligation	138	-
Changes to demographic assumptions	(163)	279
Changes to financial assumptions	639	920
	<u>11,405</u>	<u>10,529</u>

### CHANGES IN THE FAIR VALUE OF PLAN ASSETS

	2014 £000	2013 £000
Opening plan assets	7,023	6,004
Expected return	327	273
Return on plan assets less interest	(7)	612
Contributions by employer	398	412
Benefits paid	(217)	(278)
	<u>7,524</u>	<u>7,023</u>

The actual return on plan assets was a positive return of £320,000 (2013 £885,000)

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20 RETIREMENT BENEFIT OBLIGATIONS (continued)

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2014 £000	2013 £000
Present value of funded obligations	(11,405)	(10,529)
Fair value of plan assets	7,524	7,023
Deficit	(3,881)	(3,506)
Related deferred tax asset	776	701
Net pension liability	(3,105)	(2,805)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY	2014 £000	2013 £000
Opening net defined benefit liability	3,506	3,196
Net interest expense	152	135
Remeasurements	621	587
Contributions by employer	(398)	(412)
Closing net defined benefit liability	3,881	3,506

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	Cumulative 2014 £000	Cumulative 2013 £000
Actual return less expected return on pension scheme assets	246	253
Experience gains and losses arising on scheme liabilities	(1,811)	(1,673)
Changes in assumptions underlying the present value of the scheme liabilities	(2,239)	(1,763)
Cumulative actuarial loss recognised in other comprehensive expense	(3,804)	(3,183)

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20 RETIREMENT BENEFIT OBLIGATIONS (continued)

#### MAJOR CATEGORIES OF PLAN ASSETS AS A PERCENTAGE OF FAIR VALUE OF TOTAL PLAN ASSETS

	2014		2013	
	£000	%	£000	%
Equities	5,376	72	4,986	71
Property	185	2	211	3
Bonds	680	9	632	9
Corporate Bonds	682	9	632	9
Cash	516	7	492	7
Other	85	1	70	1
	<u>7,524</u>	<u>100</u>	<u>7,023</u>	<u>100</u>

The five year history of experience adjustments is as follows

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligation	(11,405)	(10,529)	(9,200)	(6,946)	(6,956)
Fair value of plan assets	<u>7,524</u>	<u>7,023</u>	<u>6,004</u>	<u>5,330</u>	<u>5,479</u>
Deficit	<u>(3,881)</u>	<u>(3,506)</u>	<u>(3,196)</u>	<u>(1,616)</u>	<u>(1,477)</u>
Experience adjustments on plan liabilities	(138)	-	(763)	-	(77)
Experience adjustments on plan assets	<u>(7)</u>	<u>612</u>	<u>172</u>	<u>(480)</u>	<u>235</u>

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20 RETIREMENT BENEFIT OBLIGATIONS (continued)

The Group expects to contribute £0.4m to its defined benefit plans in the next financial year (2013 £0.4m)

The following sensitivities apply to the value placed on the liabilities

Adjustments to assumptions	Approximate effect on Liabilities £000
Discount rate	
Plus 0.50% pa	(1,039)
Minus 0.50%	1,192
Inflation	
Plus 0.50%	416
Minus 0.50%	(380)
Life Expectancy	
Plus 1 year	315
Minus 1 year	(321)
Pension increases	
Plus 0.50% pa	580
Minus 0.50%	(321)

### 21 SHARE CAPITAL

	2014 £000	2013 £000
<i>Allotted, called up and fully paid</i>		
At 1 January		
11,764,658 ordinary shares of 10p each (2013 11,764,658)	1,176	1,176
447,602 (2013 Nil) ordinary shares of 10p each, issued during the year	45	-
At 31 December	1,221	1,176

447,602 shares were issued in 2014 as part settlement of the deferred consideration payable relating to the acquisition of Instem Clinical Holdings Limited

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**22 EARNINGS PER SHARE**

**Basic and fully diluted**

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

	Profit after tax	2014 Weighted average number of shares	Earnings per share	Profit after tax	2013 Weighted average number of shares	Earnings per share
	£000	'000	Pence	£000	'000	Pence
Earnings per share – Basic	150	12,063	1.2	529	11,765	4.5
Potentially dilutive shares	-	155	-	-	15	-
Earnings per share - Diluted	150	12,218	1.2	529	11,780	4.5

**Adjusted**

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions. Diluted adjusted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

	Adjusted Profit after tax	2014 Weighted average number of shares	Earnings per share	Adjusted Profit after tax	2013 Weighted average number of shares	Earnings per share
	£000	'000	Pence	£000	'000	Pence
Earnings per share – Basic	1,009	12,063	8.4	1,017	11,765	8.6
Potentially dilutive shares	-	155	-	-	15	-
Earnings per share - Diluted	1,009	12,218	8.3	1,017	11,780	8.6



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**22 EARNINGS PER SHARE (continued)**

Reconciliation of adjusted profit after tax	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Reported profit after tax	<b>150</b>	<b>529</b>
Non-recurring costs/(income)	<b>123</b>	<b>200</b>
Amortisation of acquired intangibles	<b>640</b>	<b>394</b>
Foreign exchange differences on revaluation of inter-company balances	<b>96</b>	<b>(84)</b>
Sundry income	<b>-</b>	<b>(22)</b>
	<hr/>	<hr/>
	<b>1,009</b>	<b>1,017</b>
	<hr/>	<hr/>

**23 CAPITAL AND RESERVES**

*Called up share capital*

The share capital account includes the par value for all shares issued and outstanding

*Share premium account*

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares less the costs of new share issues

*Translation reserve*

The translation reserve incorporates the cumulative net exchange gains and losses recognised on the translation of subsidiary company financial information to the presentational currency of Sterling (£)

*Retained earnings*

The retained earnings reserve includes the accumulated profits and losses arising from the consolidated 'Statement of Comprehensive Income' and certain items from 'Other Comprehensive Income' attributable to equity shareholders net of distributions to shareholders

*Merger reserve*

The merger reserve represents the difference between the consideration payable at the date of acquisition, net of merger relief, and the share capital and share premium of Instem Life Science Systems Limited.

*Shares to be issued*

The shares to be issued reserve represents the shares to be issued under the share option scheme and shares contingently issuable on acquisitions

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23 CAPITAL AND RESERVES (continued)

#### Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to maximise the capital structure of debt and equity so as to minimise its cost of capital.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, share premium, translation reserve, retained earnings and net debt as noted below.

Net debt includes short and long-term borrowings (including overdrafts, redeemable preference shares and lease obligations) net of cash and cash equivalents.

The Group has not made any changes to its capital management during the year.

### 24 CAPITAL COMMITMENTS

There were no capital commitments at the end of the financial year (2013: £nil).

25 OPERATING LEASES PAYABLE	2014 £000	2013 £000
Minimum lease payments under operating leases recognised as an expense in the year	256	380
At the reporting date, the Group has outstanding commitments under operating leases, which fall due as follows	2014 £000	2013 £000
Land and buildings		
Within one year	394	295
In the second to fifth year inclusive	1,000	868
After five years	498	604
Plant and machinery		
Within one year	3	4
In the second to fifth year inclusive	5	8
	1,900	1,779

Operating lease payments represent rentals payable by the Group for property leases and certain equipment. Leases have varying terms and renewal rights. The above leasing arrangements do not contain any restrictive covenants, contingent rents or purchase options.

The operating lease in relation to the head office buildings contains a dilapidation clause whereby Instem plc must make good any damage to the demised premises on expiration of the lease in November 2023. The Directors estimate that the current liability is not material to warrant provision at the period end.

No operating leases are held by the Company.

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 26 RELATED PARTY TRANSACTIONS

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year the Company traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £0.51m (2013 £0.73m). The net intercompany balances due from the Company at the year-end totalled £0.01m (2013 due to £0.02m).

During the year the Group traded in its normal course of business with shareholders and consultancy businesses in which Directors have a material interest as follows

	2014 £000	2013 £000
<i>Key management compensation</i>		
<b>Fees for services provided as Non-Executive Directors</b>		
Salaries and short term benefits	68	86
Post employment retirement benefits	-	-
Employers' national insurance & social security costs	7	9
Share based payment charge	-	-
	<u>75</u>	<u>95</u>
<b>Executive Directors</b>		
Salaries and short term benefits	269	267
Post employment retirement benefits	35	37
Employers' national insurance & social security costs	20	20
Share based payment charge	12	38
	<u>336</u>	<u>362</u>
<b>Other key management</b>		
Salaries and short term employee benefits	461	414
Post employment retirement benefits	26	25
Employers' national insurance & social security costs	44	38
Share based payment charge	8	36
	<u>539</u>	<u>513</u>

The Company paid £0.05m (2013 £0.05m) to Instem Ventures Limited, a company owned by A Gare, a shareholder. The balance outstanding at the end of the year was £nil (2013 £nil).

In addition the Company paid £0.02m (2013 £0.01m) to Noble Adamson Limited, a company owned by M McGoun, the independent non-executive director and a shareholder. The balance outstanding at the end of the year was £0.002m (2013 £nil).

Key management are considered to be the Directors together with the Senior Managers of the business.

# Instem plc

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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### 27 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Some asset and liability amounts reported in the financial information are based on management estimates and assumptions. There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year. The estimates and assumptions are made on the basis of information and conditions that exist at the time of the valuation.

#### **Fair value of assets acquired and calculation of contingent consideration**

The amounts presented in the statement of financial position in respect of the fair values of assets acquired are estimated by the Group's management based on prior experience and their assessment of the present value of estimated future cash flows. The key assumptions made in assessing fair values are in relation to intangible assets acquired, and these relate principally to the royalty rate applied to intellectual property rights (IPR), and the assessment of future revenues.

The contingent consideration provided in the financial statements is measured initially at its acquisition-date fair value and subsequently carried at its amortised cost.

#### **Impairment**

At each reporting date, the Group reviews the carrying amounts of goodwill and investments. The recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A key factor which could result in an impairment of goodwill or investments is lower than predicted revenue. Sensitivities around this factor and the discount rate are set out in note 9.

#### **Other intangible assets – useful lives**

Other intangible assets are amortised over their useful life, which has been estimated by management to be up to 8 years.

### 28 CONTINGENT LIABILITIES

Instem plc has provided a guarantee to its subsidiaries which have taken advantage of the exemption from audit. Under this guarantee, the company has a contingent liability of £9.0m (2013 £9.0m).