Information Solutions For Life

Instem plc
Annual Report
2012

Instem

Information Solutions For Life

Instem is a leading supplier of IT applications to the early development healthcare market delivering compelling solutions for data collection, management and analysis across the R&D continuum. Instem applications are in use by customers worldwide, meeting the rapidly expanding needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products.

Instem's portfolio of software solutions increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem supports its clients through full service offices in the United States, United Kingdom and China with additional locations in India and a full service distributor based in Japan.

Contents

HIGHLIGHTS	3
CHAIRMAN'S STATEMENT	5
OPERATIONAL REVIEW	7
FINANCIAL REVIEW	11
BOARD OF DIRECTORS	13
DIRECTORS' REPORT	15
CORPORATE GOVERNANCE STATEMENT	17
DIRECTORS' REMUNERATION REPORT	20
DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS	22
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INSTEM PLC	23
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	24
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	25
COMPANY STATEMENT OF FINANCIAL POSITION	26
CONSOLIDATED STATEMENT OF CASH FLOWS	27
COMPANY STATEMENT OF CASH FLOWS	28
CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY	29
ACCOUNTING POLICIES	30
NOTES TO THE FINANCIAL STATEMENTS	36
DIRECTORS AND ADVISERS	69

highlights

Highlights

Financial Highlights

- Revenues of £10.7m (2011: £10.8m)
    - Recurring revenues accounted for 70% of total revenues (2011: 70%)
    - SaaS (Software as a Service) revenue up 12% to £1.1m (2011: £1.0m)
- Adjusted operating profit* £1.5m (2011: £2.0m) in line with revised market expectations
- Reported profit before tax £1.3m (2011: £1.5m)
- Basic earnings per share 8.9p (2011: 8.6p)
- Closing cash balance as at 31 December 2012 of £2.5m (2011: £3.4m)

The market inertia experienced earlier in 2012 now appears to be largely resolved, with several new contracts secured in December and in the first quarter of 2013. North America and the emerging markets appear to be the most buoyant, offsetting continuing difficult conditions in Europe. While Provantis sales are anticipated to continue to deliver the majority of revenues to the Group for some time, the growing interest in our Centrus and translational science capabilities offers additional revenue avenues for the future.

Instem is a robust business, with net cash and a valuable customer base delivering high levels of recurring revenue. The business has been developed extensively in the last few years and is continuing to increase its strong global market share. We believe Instem continues to be well positioned to take advantage of the structural changes in the processes of drug development that are currently taking place. Both the regulatory and fiscal environments continue to be favourable to Instem, driving demand for all areas of our product suite.

Phil Reason,
Chief Executive

Operational Highlights

- Customer retention rate remained strong at over 95%
- A number of prestigious contract wins including:
    - The US National Institute of Allergy and Infectious Diseases (NIAID)
    - JOINN Laboratories, China's largest provider of pre-clinical studies
    - Advinus Therapeutics and Lupin Limited in India
    - One of the world's largest Biopharmaceutical organisations
    - A leading Japanese pharmaceutical company
- Improvements to the product set through the release of Provantis® 9, the next generation of our leading pre-clinical drug safety data collection software, Provantis Portal for remote data access, Omniviz® 6.1, an upgraded version of our visual data analytics platform, further modules in the Centrus™ suite and Logbook™, our paperless solution for laboratory and other data recording
- A significant post year end US government contract win for Provantis 9, announced in late February 2013, with the National Institute of Environmental Health Sciences committing to an agreement lasting up to ten years

* Operating profit before amortisation, share based payment and non-recurring items.

GLOBAL EXPANSION

"Operations now span the US, UK, India and China, and notable customer wins were secured in each of these regions during the year."

statement

Chairman's Statement

Against a challenging market environment, created by global economic concerns on the one hand and the rapidly changing structure of drug development processes on the other, Instem has delivered a solid set of results for the year. The Group has further consolidated its leading position in the early development application market and extended its penetration across its customer base, as well as establishing new relationships with some of the most notable global leaders in the pharmaceutical market.

Delays, caused by customer uncertainties in the face of strategic changes in the market, impacted the level of new licence sales, particularly in the first half of 2012. However a strong final quarter ensured revenues were broadly flat year-on-year at £10.7m (2011: £10.8m) and several delayed contracts have been signed post period end. A small increase in internal cost to support the completion and release of Provantis 9, together with increased third party costs due to the successful launch of Logbook, led to a decrease in adjusted operating profit to £1.5m (2011: £2.0m). This was in line with the revised market expectation.

The Group continues to benefit from its substantial recurring revenue base, of approximately £7.5m (on an annualised basis), and enjoys a high and sustained customer renewal rate of over 95%. Taken together with a healthy opening order book, this provides a solid, profitable and cash-generative platform from which to continue to develop the business.

Strong operational progress was made in the year. In particular the Group extended its geographical footprint, establishing a wholly owned subsidiary in Pune, India, providing additional software development and support resource. Operations now span the US, UK, India and China, and notable customer wins were secured in each of these regions during the year. Over 87% of Instem's revenue now comes from territories outside the UK (2011: 87%).

A core element of the Group's strategy is the extension of the range of solutions it can offer its customer base.

Instem continues to execute against this strategy and in 2012 was pleased to launch planned major new releases of Provantis, OmniViz, the Provantis Portal, and further Centrus modules. In addition, we were able to add Logbook to our offering via a partnership with Trimetra. Partnering and complementary product introductions such as this have the ability to increase Instem's addressable marketplace and will continue to be a focus for the Group going forward. The year saw an encouraging level of sales across the enlarged product suite to both existing and new customers.

Provantis 9, which delivers significant operational efficiencies in Clinical Pathology laboratories, received very positive feedback from its early adopter Roche and all of the other high profile beta test clients. This product generated new licence and upgrade revenue in 2012 and excellent opportunities for 2013.

Post year end, the Group announced that Provantis had been selected as the IT platform for the National Toxicology Program being managed by the US Government. This is a substantial multi-year Software-as-a-Service contract and endorses Instem's leading market position.

I would like to thank all our employees across the Group for their continued enthusiasm and commitment, as it is their efforts that provide Instem with its strong reputation and leading market position.

While the structural changes in the market continue to impact purchasing decisions at large pharma, there were signs towards the end of the year of increasing confidence amongst pharma and Contract Research Organisations (CROs), particularly within the US and emerging markets. We believe that Instem is well positioned to meet the needs of our customers in this changing environment and look forward to a positive 2013.

D Gare
Chairman

MARKET LEADERSHIP

"Instem continues to extend its footprint within existing clients and across the industry as a whole, outperforming its competitors in product and performance evaluations."

review

Operational Review

Whilst the major structural changes underway within the pharmaceutical market are, we believe, to Instem's long term advantage, they created uncertainty in 2012, delaying order placement. This was particularly the case in Europe, where revenues were down 13% on the prior year. The US and emerging markets were less affected and, by the end of 2012, pharmaceutical customers in these regions were making commitments - with Instem enjoying favourable outcomes in the majority of bidding situations. After they had endured a very challenging 2011, there was also a notable increase in business in the year from our CRO clients. Some of the largest CROs made significant purchases of additional products, whilst the smaller ones added more user licences - an encouraging sign that study volumes are starting to increase.

It is pleasing to report that throughout the year, the Group successfully increased its penetration in overseas markets and secured several new clients. A number of new product introductions and releases were made in 2012 and all of these generated new sales in the year and contributed to a solid pipeline for 2013. As in previous years, the majority of new contracts and contract renewals were secured in the second half of 2012, consequently, the majority of associated implementation services and product support revenue will be recognised in 2013.

The Group's substantial recurring revenue base continues to provide a solid and cash generative platform for the expansion of an increasingly global business.

Customer Wins and Renewals

As the leader in its field, Instem continues to extend its footprint within existing clients and across the industry as a whole, outperforming its competitors in product and performance evaluations. Instem has once again maintained its high level of Provantis renewals in the year, with the rate remaining above 95%. As anticipated at the time of the Interim Results, the second half of the year saw a significant increase in the amount of new business secured, in comparison with the first half, with the final quarter once again being the strongest.

Traditional perpetual licences for on-premise deployment signed during the year included the purchase of Provantis in November 2012 by the National Institute of Allergy and Infectious Diseases (NIAID), part of the National Institutes of Health (NIH). This purchase by a US government agency represents a good opportunity for the Group, particularly as the NIH invests over $30 billion annually in medical research. A prestigious contract was won in December 2012 with a top 10 biopharmaceutical organisation, which purchased multiple modules of the Centrus software suite, including the Standard for Exchange of Nonclinical Data (SEND). This represents the most comprehensive suite of Centrus modules purchased to date. Additionally, in December 2012, Instem secured a multi-year contract extension with its largest client, a leading CRO, worth an annual seven-figure US Dollar amount. The CRO not only extended the existing contract but also purchased additional Instem products and services with a value in excess of $400,000, underlining its confidence in Instem.

As well as securing customers for traditional licences, Instem also saw further uptake of its software deployed via the Software as a Service (SaaS) business model. SaaS and hybrid SaaS options continue to prove to be an increasingly popular choice for organisations of all sizes. Total SaaS revenue for 2012 was up 12% to £1.1m (2011: £1.0m).

Several smaller US and European CROs extended their agreements with Instem in the period by adding additional user and module licences; these included Champions, PSL, Jackson and Vivotecnia. There was also a step-up in upgrade projects to Provantis 9 with orders from Advinus and Lovelace.

Increased Global Presence

Instem's increased global reach has provided the Group with a strong competitive advantage and we continue to tender and successfully win projects with organisations located in all territories where early development research facilities are based. In late 2009, Instem embarked on a strategy to broaden its global presence beyond the more traditional markets of North America, Europe and Japan to the emerging economies. In 2010, our Chinese operation was established, and during 2012 we were pleased to also launch the Group's Indian operations out of Pune. Provantis offers compliance to national and western standards, dual language operation and proven protocol-driven automation that produces high quality study output in greatly reduced timescales.

The Indian office provides the ability to scale-up development and support resources flexibly in response to demand. In the longer term, it is planned that this operation will also enable the Group to provide sales and services locally in the region. During the year we were pleased to increase our penetration in this region by gaining a new client, Lupin Pharmaceuticals, and also by securing an upgrade with an existing customer, Advinus Therapeutics.

In China, Instem continued to achieve new contracts including the prestigious sale of Provantis to JOINN Laboratories, China's largest provider of preclinical studies. The system will automate processes within its China-based facilities located in Beijing and Suzhou.

Through its highly successful Japanese distributor CTCLS, Instem signed a contract in the first half of 2012 with one of Japan's leading pharmaceutical companies for a comprehensive suite of Provantis modules.

Instem Scientific

Instem Scientific has leveraged its strong client base, technology and service offerings in omics research, data integration and visual analytics to deliver information solutions for translational science. This is a growing area of the life sciences market as companies look to re-use data in the development of new drugs, chemicals and medical devices. Leveraging large volumes of historic data collected by Instem's flagship product Provantis, and extending this across the full reach of the drug development process, from discovery through to clinical development, is one of the opportunities for Instem Scientific solutions.

Instem Scientific continues to enjoy a high rate of recurring revenue renewal across all product lines reflecting the strong long-term partnerships with its life science customers.

The Group continues to invest in this area of the business, adding further expertise, marketing strength and new product releases to improve performance and functionality.

Product Development

Instem's market leading study management product, Provantis, continues to generate significant revenues for the Group. In July 2012, Instem successfully delivered Provantis 9, a major new release of its core product suite. The release completed a significant, phased multi-year product redevelopment, designed to further enhance efficiencies and reduce study timelines while supporting the changes in laboratory working practices brought about by the structural changes in the pharma market. It takes advantage of the latest capabilities of the underlying Microsoft® and Oracle® platform technologies. Unique Provantis capabilities that improve operational efficiency and reduce study timelines are proving key competitive differentiators.

Initial Provantis 9 uptake and future interest has been encouraging. Early adopter Roche and a wider group of high profile beta test clients have shared very positive impressions of the new release, helping stimulate both new client and existing client upgrade orders.

In late 2010, Instem launched Centrus, a software suite that is complementary to Provantis but focused on the areas of enterprise information integration in early drug development, management and reporting. The suite continues to build good momentum, particularly the modules associated with the US Food and Drug Administration sponsored Standard for the Exchange of Non-clinical Data (SEND).

The Group's leading position in this developing area was underlined in February 2012 when Instem was recognised for its outstanding contribution to SEND at the Interchange North America event organised by CDISC, the Clinical Data Interchange Standards Consortium. The release of Centrus submit™ 3.1 immediately after the formal release of the SEND 3.0 standard continues Instem's leadership in this area.

The Centrus pipeline continues to be healthy, and Instem was pleased that in December 2012 it secured a significant order with one of the world's largest biopharmaceutical organisations. This order represents the most comprehensive suite of Centrus modules purchased to date. Instem expects the SEND standard to be a catalyst for the uptake of Centrus, as clients prioritise investments that satisfy new regulatory requirements and support increased study outsourcing.

In June 2012, Instem launched Logbook, via a partnership with Trimetra. It achieved notable success, by exceeding its anticipated revenue targets for the year. Logbook replaces the last vestiges of client paper data recording, improving operational efficiency and facilitating electronic data access.

In October 2012 the Provantis Portal was launched, enabling internal client staff or their external clients and collaborators to access live study data securely. During the year it was taken into use by a lead client, Jackson Laboratories, and generated good opportunities for further follow-on business.

Instem Scientific continues to focus on translational informatics, harnessing its expertise in developing solutions across the whole spectrum of pharmaceutical R&D, but now with an added focus in Instem's early development market. In November 2012, version 6.1 of OmniViz was released, bringing the full power of 64-bit processing technology to a key component of their data integration and bioinformatics suite. In particular this facilitates the generation of new knowledge through the extraction of actionable information across the research and development continuum.

Market Overview

A typical drug can take 13-15 years from patent registration to come to market, at an average cost of approximately $1.3 billion, leaving a pharmaceutical company just 5-7 years of remaining patent protection following product launch to recover its investment. Therefore there is a recognised need to increase efficiencies and reduce costs. Instem's established software solutions increase efficiencies during drug development by automating study management processes. The addition of products through internal development, revenue-share partnerships, and acquisitions, serve to increase Instem's addressable markets. Alongside this is an increased tendency for pharmaceutical companies to partner with external service providers such as CROs in order to share risk. We expect this, combined with the release of the SEND standard by the FDA, to create sustained demand for high integrity data sharing solutions. We address this need through our Centrus and broader Instem Scientific suite of products.

Instem is ideally positioned to take advantage of on-going changes within the global R&D market, particularly in emerging markets such as China where technology solutions are being sought to help reduce development time, cut costs and improve operating efficiency, and where little automation of processes has taken place to date. There were also indications during the year from the larger CROs that there is a modest but sustained increase in activity levels as large pharma begin to increase spend on drug development activities. Additionally in 2012, Instem saw an increase in the number of licences required by smaller US and European CROs, an encouraging sign of increasing confidence in these markets.

The majority of the leaders in the industry continue to choose our software, and indeed advocate consolidation in the disparate supplier marketplace. Since the Group provides access to a blue chip client base and a global network of support, sales and development, Instem is seeing an appetite, from other suppliers, to partner with the Group in complementary areas. We remain alert to opportunities for partnered product developments and, where appropriate, selective acquisitions.

Future Plans

Instem plans to continue to develop its business by building on the three elements of the Instem product set:

Instem Study Management

- Provantis; a suite of Study Management and Data Collection modules that provide 75% of recurring revenues annually and invariably captures a high proportion of all new business placed in its market;
- Centrus; a complementary Reporting, Analysis & Submission product suite, that offers cross-selling capabilities within the existing client base as well as to potential new customers;

Instem Scientific

- Our translational science suite provides the ability to aggregate, analyse and extract knowledge from huge volumes of disparate internal and external data, unlocking considerable additional value from prior research investments; this positions us within a valuable area of the pharmaceutical market.

Although Provantis sales are anticipated to continue to deliver the majority of revenues to the Group for some time, the growing interest in our Centrus and translational science capabilities offers additional avenues for future growth.

The Group has an impressive and longstanding customer list of leading global pharmaceutical, chemical, academic and government research organisations. The IT supplier market is highly fragmented and Instem's customer base has indicated its preference to purchase software from a smaller number of core suppliers, of which Instem is one. Instem continues to pursue relationships with other suppliers that would advance this goal. An example is the partnership with Trimetra which, for Instem, simultaneously enhances the Group's market position, complements existing products and provides access to adjacent markets and for Trimetra provides a route to market for their Logbook product. Similar mutually beneficial relationships that provide access to Instem's blue chip client base and global network, for organisations with relevant 'market ready' products, offer attractive growth possibilities and increase Instem's addressable market.

OUTLOOK

"Instem continues to be well positioned to take advantage of the structural changes in the processes of drug development that are currently taking place. Both the regulatory and fiscal environments continue to be favourable to Instem, driving demand for all areas of our product suite."

review

Financial Review

The financial results demonstrate a solid performance in the year with total revenues steady at £10.7m (2011: £10.8m). As described in the Chairman's Statement, new licence sales were lower in the first half of the year than previously anticipated, but increased in the final quarter. As a result only minimal revenue has been recognised for implementation services and annual support and maintenance from these contracts in 2012, with the remainder to be recognised in 2013.

The business continued to expand in developing markets with revenue from outside North America and Europe increasing to £1.1m (2011: £0.9m), being 10% of Group revenue (2011: 9%) with notable wins in India, China and Japan.

Instem's business model consists of fees for perpetual licences, annual support, SaaS subscriptions and professional services. As in the previous year, approximately 70% of revenue was recurring in nature, principally from annual support fees and SaaS subscriptions, with a small contribution from professional fees.

The business continues to generate the majority of its revenue in US dollars and therefore we continue to hedge against its decline. In the period the average exchange rate was $1.5888/£1.00 compared with an average exchange rate in 2011 of $1.6014/£1.00.

The profit from operations before amortisation, share based payment and non-recurring costs for the year was £1.5m (2011: £2.0m). Operating expenses increased in line with expectations by £0.4m over 2011 due to a small increase in internal costs as Provantis 9 was completed, together with increased third party costs due to the successful launch of Logbook.

Amortisation increased by £0.1m over the equivalent period in 2011 reflecting the increased investment in intangibles including those assets acquired through the purchase of Instem Scientific.

Development costs incurred in the period were £1.69m (2011: £1.64m), of which £0.26m were capitalised (2011: £0.26m).

Non-recurring costs include a charge of £0.1m in respect of legal and professional fees associated with pursuing acquisition opportunities, offset by a £0.24m write-back of the provision for deferred contingent consideration in respect of Instem Scientific.

In common with many businesses with a defined benefit pension scheme, there was an increase in the funding deficit during the period calculated in accordance with the provisions of IAS19 that amounted to £1.4m (net of deferred tax), which has been recognised in Other Comprehensive Income/(Expense). This was a non-cash charge in the period and arose primarily as a result of lower discount rates used for calculation of the liabilities, partially offset by higher expected returns on assets. As part of the scheme's triennial actuarial valuation as at 5 April 2011, the Group has 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. This involves a modest increase of £0.1m in the Group's current payments to the scheme rising from £0.3m to £0.4m per annum from 2013. The defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008.

Cash generated from operations was £0.4m (2011: £1.3m). The Group had cash reserves of £2.5m as at 31 December 2012, compared with £3.4m as at 31 December 2011. Cash flows related to a number of the larger contracts which were signed in the final quarter of 2012 have been received in the first quarter of 2013.

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.

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 the significant proportion of its revenue being recognised in US Dollars. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth.

Outlook

The market inertia experienced earlier in 2012 now appears to be largely resolved, with several new contracts secured in December and in the first quarter of 2013. North America and the emerging markets appear to be the most buoyant, offsetting continuing difficult conditions in Europe. While Provantis sales are anticipated to continue to deliver the majority of revenues to the Group for some time, the growing interest in our Centrus and translational science capabilities offers additional revenue avenues for the future.

Instem is a robust business, with net cash and a valuable customer base delivering high levels of recurring revenue. The business has been developed extensively in the last few years and is continuing to increase its strong global market share. We believe Instem continues to be well positioned to take advantage of the structural changes in the processes of drug development that are currently taking place. Both the regulatory and fiscal environments continue to be favourable to Instem, driving demand for all areas of our product suite.

P J Reason
Chief Executive

David Gare

Non-executive Chairman

David was a founder member of the Company's former parent, Instem Limited, and led the resulting businesses through most of their history. David successfully achieved a succession of strategic developments for Instem Limited, including its sale to Kratos Inc. in 1976, its MBO in 1983, its flotation on the USM in 1984, its flotation on the Official List in 1996, its public to private and demerger in 1998 and the buyout of Instem LSS Limited from Alchemy Partners in 2002. Throughout, David has concentrated on value creation through achievement of a strong market position.

Phil Reason

Chief Executive Officer

Phil is an experienced chief executive who has developed a number of IT businesses in the life sciences and nuclear industries, both organically and through acquisition. Phil joined the former parent Company, Instem Limited, in 1982 and was appointed Managing Director of the Life Sciences division in 1995 and Chief Executive Officer of Instem LSS Limited on the demerger from Instem Limited. Given the importance of the North American market to Instem's organic and acquisitive growth, Phil relocated from the UK to the US in 2003 and established a new headquarters in the Philadelphia area. Phil previously ran Instem Limited's Nuclear and Laboratory Information Management Systems integration businesses.

Nigel Goldsmith

Chief Financial Officer

Nigel, who joined Instem in November 2011, has a wealth of experience in senior financial roles, at both public and private companies within the pharmaceutical industry. After qualifying as a Chartered Accountant, Nigel spent over nine years at KPMG prior to moving into industry. Nigel was Finance Director for three years at AIM listed, pharmaceutical and medical company, IS Pharma plc. He also spent a seven-year tenure as CFO at Almedica International Inc, a privately held supplier of clinical trial materials to the pharmaceutical and biotech industry in Europe and the US and two years as European Controller for the sales and marketing division of laboratory equipment manufacturer, Life Sciences International plc.

Mike McGoun

Non-executive Director

Mike has a wealth of management experience within the IT industry. He spent 10 years at IBM prior to co-founding a successful ComputerLand franchise in 1984. In 1994 Mike moved to SkillsGroup plc as a main board director, with responsibility for corporate development and later as a non-executive director. Mike was founder and non-executive Chairman of Tikit Group plc prior to its disposal to BT plc in 2012. Mike has been Chairman of Peakdale Molecular plc, a chemistry research organisation, since 2002.

David Sherwin

Non-executive Director

David is a qualified Management Accountant and holds an MBA from Staffordshire University. He joined Instem Limited as a trainee accountant in 1973 and was appointed Chief Financial Officer in 1979. He has worked closely with David Gare on all of the subsequent transactions involving Instem Limited and Instem LSS Limited including participating in the management buyout of Instem Limited in 1983, the flotation on the USM in 1984, the flotation on the Official List in 1996 and the demerger of the business in 1998.

reports

DIRECTORS' REPORT

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2012.

Instem plc is a public listed company, incorporated and domiciled in England, and quoted on the Alternative Investment Market (AIM).

Principal Activities

The principal activity of the Group is the provision of world-class IT solutions to the early development healthcare market. Instem's pre-clinical study management solutions accelerate drug and chemical development by increasing productivity, automating processes and enhancing practices that lead to safer and more effective drugs. The principal activity of the Company is that of a holding company.

The Group operates subsidiaries outside the EU in USA, China, Hong Kong and India.

Review of the Business

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

1. Total number of customers

In 2012 the Group had a total of 122 customers (2011: 121 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 2012 was £7.5m (2011: £7.5m).

3. New product orders

In 2012 the value of orders from new products developed and new markets entered during the preceding three years amounted to £1.08m (2011: £0.40m).

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 and the Operational Review on pages 5 to 9.

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 Operational Review.

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.

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 the significant proportion of its revenue being recognised in US Dollars. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth.

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.

In 2012 development expenditure was £1.69m (2011: £1.64m) before capitalised expenditure of £0.26m (2011: £0.26m).

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 Remuneration Committee report on page 20.

Directors and Their Interests

The interests of the directors who held office at 31 December 2012 and up to the date of this report were as follows:

No. of Shares	2012	2011
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 Committee report on page 20.

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.

Politicial and Charitable Contributions

The Group made charitable contributions in the year of £1,100 (2011: £1,324), matching contributions made by employees to a Give As You Earn scheme. No political donations were made in 2012 or 2011.

Policy on Payment of Suppliers

It is the Group's policy to make payments to suppliers in accordance with the agreed terms and conditions of supply, provided that the supplier has performed in accordance with the terms of supply. Trade payables at 31 December 2012 represented 42 days of purchases (2011: 61 days).

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 21 May 2013 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. The proxy card for registered shareholders is distributed along with the notice.

Statement as to Disclosure of Information to Auditors

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 auditors are 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.

Auditors

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

On behalf of the Board

N J Goldsmith
Director and Company Secretary

Diamond Way
Stone Business Park
Stone
Staffordshire
ST15 0SD

19 April 2013

CORPORATE GOVERNANCE STATEMENT

The Board fully supports the underlying principles of corporate governance contained in the UK Corporate Governance Code, notwithstanding that, as its securities are not listed on the Official List, it is not required to comply with such recommendations. It has sought to comply with the provisions of the Corporate Governance Code, insofar as is practicable and appropriate for a public Company of its size and nature and taking account of the QCA guidelines for smaller quoted companies. 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, which do not constitute full compliance with the UK Corporate Governance Code, are as follows:

a. the Board has one independent non-executive director who takes an active role in Board matters;
b. 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;
c. 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
d. 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:

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.

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 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 auditors;
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.

No. of meetings in the period/ No. invited to attend	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive directors				
P J Reason	7/7	3/3	2/2	1/1
N J Goldsmith	7/7	3/3	1/1	-
Non-Executive directors				
D Gare	7/7	3/3	2/2	1/1
D M Sherwin	7/7	3/3	2/2	1/1
M F McGoun	7/7	3/3	2/2	1/1

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 Group.

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.

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 to 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 Group.

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 meets at least once per year.

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;
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. 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

19 April 2013

DIRECTORS' REMUNERATION REPORT

Instem plc 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, as a Company on AIM. 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 twice. Full details of the elements of each director's remuneration are set out on page 21. 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 2012 (2011: £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 private healthcare and critical illness cover. No 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 of up to 12 months duration with a maximum notice period of 12 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 with an initial three year term that commenced in October 2010, with a notice period of 3 months during or after expiry of that fixed term.

The emoluments paid to directors in the year ended 31 December 2012 were as follows:

	Salary	Benefits	Pension	2012 Total	2011 Total
Executives	£000	£000	£000	£000	£000
P J Reason	143	14	23	180	175
N J Goldsmith	82	12	25	119	18
J McLauchlan	-	-	-	-	58
Non-executives					
D Gare	44	-	-	44	44
D M Sherwin	24	-	-	24	49
M F McGoun	24	-	-	24	24
Total	317	26	48	391	368

Directors' and Employees' Share Options

	Exercise price(£)	Issue date	Held at 31 Dec 2011	Granted During Year	Exercised during Year	Lapsed during Year	Held at 31 Dec 2012
P J Reason Ordinary shares	1.750	13/10/2010	187,428	-	-	-	187,428
N J Goldsmith Ordinary shares	2.215	29/11/2011	60,000	-	-	(20,000)	40,000
	1.760	07/02/2012	-	20,000	-	-	20,000
J McLauchlan & Estate Ordinary shares	1.750	13/10/2010	62,476	-	-	(62,476)	-
Employees Ordinary shares	1.750	13/10/2010	304,569	-	-	-	304,569
	2.220	03/03/2011	101,351	-	-	-	101,351
	2.220	17/10/2011	22,000	-	-	(7,333)	14,667
	1.115	23/10/2012	-	40,000	-	-	40,000
Total			737,824	60,000	-	(89,809)	708,015

Further detail of the terms of the option agreements is given in note 6.

Approved by the Board and signed on its behalf by:

M F McGoun
Independent Non-Executive Chairman

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INSTEM PLC

We have audited the group and parent company financial statements ("the financial statements") on pages 24 to 62. 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 22, 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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2012 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 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.

Geoff Wightwick BA FCA (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP,
Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

22 April 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

Continuing Operations	Note	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
REVENUE	1	**10,661**	10,793
Operating expenses	2	**(9,157)**	(8,791)
PROFIT FROM OPERATIONS BEFORE AMORTISATION, SHARE BASED PAYMENT AND NON-RECURRING ITEMS		**1,504**	2,002
Amortisation of intangibles		**(397)**	(347)
Share based payment		**(86)**	(88)
PROFIT BEFORE NON-RECURRING ITEMS		**1,021**	1,567
Non-recurring income/(costs)	2	**137**	(21)
PROFIT FROM OPERATIONS		**1,158**	1,546
Finance income	3	**238**	422
Finance costs	4	**(144)**	(456)
PROFIT BEFORE TAXATION		**1,252**	1,512
Income tax expense	8	**(208)**	(506)
RETAINED PROFIT FOR THE YEAR		**1,044**	1,006
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Actuarial loss on retirement benefit obligations	20	**(1,833)**	(392)
Deferred tax on actuarial loss		**389**	68
Exchange differences on translating foreign operations		**(189)**	96
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(1,633)**	(228)
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		**(589)**	778
Profit attributable to Owners of the Parent Company		**1,044**	1,006
TOTAL COMPREHENSIVE (EXPENSE) / INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**(589)**	778
Earnings per share from continuing operations Basic	22	**8.9p**	8.6p
Diluted	22	**8.9p**	8.5p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

		31 December 2012		31 December 2011	
	Note	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	9	**8,034**		8,103	
Property, plant and equipment	11	**187**		188	
Deferred tax assets	19	**732**		279	
TOTAL NON-CURRENT ASSETS			**8,953**		8,570
CURRENT ASSETS					
Inventories	12	**90**		93	
Trade and other receivables	13	**3,750**		3,029	
Current tax assets	16	**235**		64	
Cash and cash equivalents	14	**2,450**		3,368	
TOTAL CURRENT ASSETS			**6,525**		6,554
TOTAL ASSETS			**15,478**		15,124
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	**7,037**		7,594	
Financial liabilities	17	**250**		250	
TOTAL CURRENT LIABILITIES			**7,287**		7,844
NON-CURRENT LIABILITIES					
Financial liabilities	17	**-**		250	
Retirement benefit obligations	20	**3,196**		1,616	
TOTAL NON-CURRENT LIABILITIES			**3,196**		1,866
TOTAL LIABILITIES			**10,483**		9,710
EQUITY					
Share capital	21	**1,176**		1,171	
Share premium	23	**7,892**		7,813	
Merger reserve	23	**(932)**		(932)	
Shares to be issued	23	**174**		88	
Translation reserve	23	**284**		473	
Retained earnings	23	**(3,599)**		(3,199)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**4,995**		5,414
TOTAL EQUITY AND LIABILITIES			**15,478**		15,124

The financial statements on pages 24 to 62 were approved by the board of directors and authorised for issue on 19 April 2013 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Note	31 December 2012 £000	£000	31 December 2011 £000	£000
ASSETS					
NON-CURRENT ASSETS					
Investments	10	**17,195**		17,109	
TOTAL NON-CURRENT ASSETS			**17,195**		17,109
CURRENT ASSETS					
Trade and other receivables	13	**2,032**		753	
Cash and cash equivalents	14	**1,365**		2,102	
TOTAL CURRENT ASSETS			**3,397**		2,855
TOTAL ASSETS			**20,592**		19,964
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	**309**		573	
Financial liabilities	17	**250**		250	
TOTAL CURRENT LIABILITIES			**559**		823
NON-CURRENT LIABILITIES					
Financial liabilities	17	**-**		250	
TOTAL NON-CURRENT LIABILITIES			**-**		250
TOTAL LIABILITIES			**559**		1,073
EQUITY					
Share capital	21	**1,176**		1,171	
Share premium	23	**7,892**		7,813	
Merger reserve	23	**10,702**		10,702	
Shares to be issued	23	**174**		88	
Retained earnings	23	**89**		(883)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**20,033**		18,891
TOTAL EQUITY AND LIABILITIES			**20,592**		19,964

The financial statements on pages 24 to 62 were approved by the board of directors and authorised for issue on 19 April 2013 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Year ended 31 December 2012 £000	£000	Year ended 31 December 2011 £000	£000
CASH FLOWS FROM OPERATIONS					
Profit before taxation		**1,252**		1,512	
Adjustments for:					
Depreciation		**158**		116	
Amortisation of intangibles		**397**		347	
Profit on disposal of property, plant and equipment		**-**		(14)	
Share based payments and shares to be issued		**86**		88	
Adjustments to contingent consideration		**(241)**		(80)	
Retirement benefit obligations		**(337)**		(245)	
Net foreign exchange gains		**219**		88	
Finance income		**(238)**		(422)	
Finance costs		**144**		456	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**1,440**		1,846
Movements in working capital:					
Decrease in inventories			**-**		47
Increase in trade and other receivables			**(953)**		(1,230)
(Decrease)/increase in trade and other payables			**(64)**		679
CASH GENERATED FROM OPERATIONS			**423**		1,342
Finance costs			**(60)**		(362)
Income taxes paid			**(442)**		(478)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES			**(79)**		502
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		**19**		300	
Purchase of intangible assets		**(328)**		(291)	
Purchase of property, plant and equipment		**(158)**		(152)	
Disposal of property, plant and equipment		**-**		30	
Acquisition of subsidiary		**(85)**		(200)	
Cash acquired with subsidiary		**-**		141	
NET CASH USED IN INVESTING ACTIVITIES			**(552)**		(172)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loan notes repaid		**(250)**		(253)	
NET CASH USED IN FINANCING ACTIVITIES			**(250)**		(253)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			**(881)**		77
Cash and cash equivalents at start of year			**3,368**		3,263
Effects of exchange rate changes on the balance of cash held in foreign currencies			**(37)**		28
CASH AND CASH EQUIVALENTS AT END OF YEAR	14		**2,450**		3,368

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Year ended 31 December 2012 £000	£000	Year ended 31 December 2011 £000	£000
CASH FLOWS FROM OPERATIONS					
Profit/(loss) before taxation		972		(542)	
Adjustments for:					
Contingent consideration		(241)		-	
Share based payment		-		88	
Finance income		(18)		(42)	
Finance cost		13		48	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			726		(448)
Movements in working capital:					
Increase in trade and other receivables			(1,279)		(189)
Increase in trade and other payables			146		98
CASH USED IN OPERATIONS			(407)		(539)
Finance costs			(13)		(48)
NET CASH USED IN OPERATING ACTIVITIES			(420)		(587)
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income		18		42	
Acquisition of subsidiary		(85)		(200)	
NET CASH USED IN INVESTING ACTIVITIES			(67)		(158)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loan note repayment		(250)		(253)	
NET CASH USED IN FINANCING ACTIVITIES			(250)		(253)
NET DECREASE IN CASH AND CASH EQUIVALENTS			(737)		(998)
Cash and cash equivalents at start of year			2,102		3,100
CASH AND CASH EQUIVALENTS AT END OF YEAR	14		1,365		2,102

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 2011	1,171	7,813	(932)	-	377	(3,881)	4,548
Profit for the year	-	-	-	-	-	1,006	1,006
Other comprehensive income/ (expense) for the year	-	-	-	-	96	(324)	(228)
Total comprehensive income	-	-	-	-	96	682	778
Share based payment	-	-	-	88	-	-	88
Balance as at 31 December 2011	1,171	7,813	(932)	88	473	(3,199)	5,414
Profit for the year	-	-	-	-	-	1,044	1,044
Other comprehensive expense for the year	-	-	-	-	(189)	(1,444)	(1,633)
Total comprehensive expense	-	-	-	-	(189)	(400)	(589)
Share based payment	-	-	-	86	-	-	86
Transactions with owners in their capacity as owners							
Shares issued	5	79	-	-	-	-	84
Balance as at 31 December 2012	**1,176**	**7,892**	**(932)**	**174**	**284**	**(3,599)**	**4,995**

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 2011	1,171	7,813	10,702	-	(341)	19,345
Total comprehensive expense for the year	-	-	-	-	(542)	(542)
Share based payment	-	-	-	88	-	88
Balance as at 31 December 2011	1,171	7,813	10,702	88	(883)	18,891
Total comprehensive income for the year	-	-	-	-	972	972
Share based payment	-	-	-	86	-	86
Transactions with owners in their capacity as owners						
Shares issued	5	79	-	-	-	84
Balance as at 31 December 2012	**1,176**	**7,892**	**10,702**	**174**	**89**	**20,033**

ACCOUNTING POLICIES

GENERAL INFORMATION

The principal activity of the Group is the provision of world class IT solutions to the early development healthcare market. Instem's pre-clinical study management solutions accelerate drug and chemical development by increasing productivity, automating processes and enhancing practices that lead to safer and more effective drugs. Instem plc is a Company incorporated in England and Wales under the Companies Act 2006 and domiciled in the UK. 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 and IFRIC interpretations as endorsed by the EU (IFRS) 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 two of its non-trading subsidiaries Instem Life Science Systems Limited and Instem Scientific Solutions Limited, by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these two 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 £972,000 (2011: Loss £542,000).

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 2012 and 31 December 2011, excluding Instem India Private Limited as the values were considered immaterial.

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.

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 equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. 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.

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 working capital facility is in place to support the Group's working capital needs.

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, installation, training, 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. For bill and hold arrangements relating to sales of licences, revenue is recognised when the buyer takes title provided that it is probable that delivery will be made, the item is on hand, identified and ready for delivery to the buyer, the buyer specifically acknowledges the deferred delivery instructions and the usual payment terms apply.

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

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, SHARE BASED PAYMENT AND NON-RECURRING ITEMS

Profit from operations before amortisation, share based payment and non-recurring items is profit arising from the Group's normal trading activities stated before amortisation of intangible assets, share based payment charges, non-recurring items, finance income, finance costs and taxation.

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' provides 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.

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.

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

Instem plc	Sterling (£)
Instem Life Science Systems Limited	Sterling (£)
Instem LSS Limited	Sterling (£)
Instem LSS (North America) Limited	US Dollars ($)
Instem LSS Asia Limited	Hong Kong Dollars (HK$)
Instem Information Systems (Shanghai) Limited	Renminbi (¥)
Instem Scientific Limited	Sterling (£)
Instem Scientific Solutions Limited	Sterling (£)
Instem Scientific Inc	US Dollars ($)
Instem India Pvt Limited	Indian Rupees (INR)

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

	US Dollar ($)	Hong Kong Dollar (HK$)	Chinese Renminbi (¥)
Average rate for year ended 31 December 2011	1.6014	12.4623	10.3447
Closing rate at 31 December 2011	1.5541	12.0701	9.7815
Average rate for year ended 31 December 2012	1.5888	12.3237	10.0170
Closing rate at 31 December 2012	1.6155	12.5228	10.0699

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 comprise interest payable, exchange losses on the translation of intra-group funding balances, finance charges on finance leases and 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.

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.

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 an accruals basis 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.

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.

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 cost 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).

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 the following basis:

Short leasehold property	-	Over term of lease
Plant and equipment	-	12½% - 25% 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 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 and hosting set up costs. These are stated at the lower of amortised cost and net realisable value.

Provision is made where necessary for obsolete and slow moving inventory.

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.

ACCOUNTING POLICIES

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.

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.

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.

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 2012. 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.

- **IFRS 13** Fair Value Measurement
  Provides a definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS's.
  Effective for periods commencing on or after 1 January 2013.

- **IFRS 7** Financial Instruments: Disclosures – Amendment; Offsetting Financial Assets and Financial Liabilities
  Provides guidance on the meaning of "a legally enforceable right of set off" and situations where gross settlement systems may be considered equivalent to net settlement.
  Effective for periods commencing on or after 1 January 2013.

- **IFRS 10** Consolidated Financial Statements
  Replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". Retains the principle of control, but redefines control and provides further guidance on how to apply the control principle.
  Effective for periods commencing on or after 1 January 2013.

- **IFRS 12** Disclosure of Interests in Other Entities
  Applies to entities with interests in subsidiaries, joint arrangements, associates and other unconsolidated structured entities and sets out disclosures in respect of such entities.
  Effective for periods commencing on or after 1 January 2013.

- **IFRS 9** Financial Instruments (including Amendment issued 16 Dec 11)
  Replaces the requirements for the classification and measurement of financial assets and financial liabilities in IAS 39 "Financial Instruments: Recognition and Measurement". Requires that financial assets are measured initially at fair value and subsequently at amortised cost or fair value through profit or loss, based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Retains the option to designate as at fair value through profit or loss under certain conditions and applies measurement to the entire hybrid contract, so embedded derivatives are no longer separated. Requires equity instruments to be measured at fair value through profit and loss unless an irrevocable election is made to recognise fair value gains and losses in other comprehensive income. Changes the fair value option for financial liabilities to address own credit risk.
  Effective for periods commencing on or after 1 January 2015.

- **IAS 1** Presentation of Financial Statements
  Details requirements for voluntarily disclosed comparative information and confirms that notes are not required to the opening statement of financial position presented on a change of accounting policy or retrospective restatement or reclassification.
  Effective for periods commencing on or after 1 January 2013.

- **IAS 32** Financial Instruments: Presentation
  Clarifies that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12 Income Taxes.
  Effective for periods commencing on or after 1 January 2013.

IFRSs ADOPTED IN THE YEAR

The following IFRSs, IASs and IFRICs have been adopted for the first time in the year:

- **IAS 24** Revised Related Party Disclosures

- **IFRS 7** Financial Instruments: Disclosures – Amendments; Disclosures – Transfers of Financial Assets

NOTES TO THE FINANCIAL STATEMENTS

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.

THIRD PARTY REVENUE			
		2012 **£000**	2011 £000
INFORMATION BY PRODUCT TYPE			
Licence fees		**1,775**	2,336
Annual support fees		**6,188**	5,961
SaaS subscription fees		**1,141**	1,016
Professional services		**1,373**	1,338
Funded development initiatives		**184**	142
		10,661	10,793

THIRD PARTY REVENUE			
		2012 **£000**	2011 £000
INFORMATION BY GEOGRAPHICAL LOCATION			
United Kingdom		**1,311**	1,342
Rest of Europe		**2,147**	2,518
USA and Canada		**6,135**	5,989
Rest of World		**1,068**	944
		10,661	10,793

NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION			
		2012 **£000**	2011 £000
INFORMATION BY GEOGRAPHICAL LOCATION			
United Kingdom		**8,183**	8,163
USA and Canada		**29**	48
Rest of World		**9**	80
		8,221	8,291

MAJOR CUSTOMERS

The Group generates external revenue from one customer which individually amounts to more than 10% of the Group revenue. Revenue in respect of this customer for the year ended 31 December 2012 amounted to £1.1m (2011: £0.8m). In 2011 no customers exceeded 10% of revenue.

2. Profit from Operations

	2012 £000	2011 £000
Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	**158**	116
Amortisation of intangible assets	**397**	347
Profit on disposal of property, plant and equipment	**-**	(14)
Research and development costs	**1,434**	1,384
Foreign exchange gains recognised in operating expenses	**(219)**	(88)
Operating lease rentals:		
Plant and machinery	**61**	108
Land and buildings	**363**	308
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	**15**	16
Other services:		
Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	**31**	60
Taxation services - Compliance	**10**	12
Taxation services - Advisory	**2**	-
Corporate finance services	**25**	31
	83	119

2. Profit from Operations (continued)

The following table analyses the nature of expenses:

	2012 £000	2011 £000
Staff costs (see note 5)	**6,024**	5,761
Depreciation (see note 11)	**158**	116
Operating lease rentals	**424**	416
Software maintenance charges	**257**	309
Licence costs	**436**	114
Other expenses	**1,858**	2,075
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**9,157**	8,791

Non-Recurring Income/(Costs)

The Group incurred costs of £0.10m (2011: £0.10m) in connection with acquisition activities. In addition the Group recognised a credit of £0.24m (2011: £0.08m) in relation to the re-assessment of contingent consideration.

NOTES TO THE FINANCIAL STATEMENTS

3. Finance Income

	2012 £000	2011 £000
Bank interest	**19**	300
Foreign exchange gains	**219**	122
	238	422

4. Finance Costs

	2012 £000	2011 £000
Bank loans and overdrafts	**47**	306
Foreign exchange losses	**-**	34
Expected returns on pension scheme assets	**(288)**	(334)
Interest on pension scheme liabilities	**372**	394
Other	**13**	56
	144	456

5. Employees

	2012 Number	2011 Number
Average monthly number (including executive directors)		
By role:		
Directors, administration and supervision	**35**	34
Software design, sales and customer service	**79**	82
	114	116
	2012 £000	2011 £000
Employment costs:		
Wages and salaries	**5,000**	4,769
Social security costs	**495**	470
Other pension costs	**529**	522
	6,024	5,761

A charge of £0.09m (2011: £0.09m) arises in respect of share based payment.

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 which is equal to the market price at the date of grant. The contractual life is generally ten years from the date of grant. Options become exercisable after three years. Certain options issued to directors and senior employees carry market based performance conditions.

	2012		2011	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	**737,824**	**1.87**	585,711	1.75
Granted	**60,000**	**1.33**	183,351	2.22
Lapsed	**(89,809)**	**1.89**	(31,238)	1.75
Outstanding at end of the year	**708,015**	**1.82**	737,824	1.87
Exercisable at 31 December	**-**	**-**	-	-

The options outstanding at 31 December 2012 had exercise prices of £1.115, £1.750, £1.760, £2.215 and £2.220 (2011: £1.750, £2.220 and £2.215) and a weighted average remaining contractual life of 8.10 years (2011: 8.90 years).

Options are valued using the Black-Scholes option-pricing model and for performance conditions, the Binomial or Monte Carlo models. The fair market value has been estimated using the following key assumptions:

	2012	2011
Average exercise price	**£1.33**	£2.22
Average market price	**£1.47**	£2.22
Average vesting period (years)	**3**	3
Expected volatility	**17.9%-19.1%**	19.1%-20.7%
Option life (years)	**10**	10
Expected life	**6**	6
Risk free rate	**0.95%-1.29%**	1.27%-1.60%
Expected dividend yield	**0%**	0%
Expected lapse rate	**0%**	0%
Fair value of options	**£0.30-£0.45**	£0.51-£0.53

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.

Options over 464,281 shares (2011: 447,233 shares) incorporate a market performance condition based on the Company's share price.

The fair value of options granted in the year is £0.02m (2011: £0.11m).

7. Directors' Emoluments		**2012 £000**	2011 £000
Amounts payable by Instem plc:			
Emoluments		**92**	117
Money purchase pension contributions		**-**	-
Amounts payable by subsidiary companies:			
Emoluments		**251**	246
Money purchase pension contributions		**48**	30
Total emoluments		**391**	393
		2012 Number	2011 Number
Number of directors to whom retirement benefits are accruing under:			
Defined contribution schemes		**2**	1

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

8. Income Taxes

Income taxes recognised in the statement of comprehensive income	2012 £000	2011 £000
Current tax:		
UK corporation tax on profits of the year	**179**	167
Double tax relief	**(109)**	-
Foreign tax	**224**	240
Adjustments in respect of previous years	**27**	(78)
Adjustment in respect of 2010 R&D tax credit	**(50)**	-
Total current tax	**271**	329
Deferred tax:		
Origination and reversal of temporary differences	**(38)**	150
Adjustments in respect of previous years	**(83)**	(36)
Retirement benefit obligation	**58**	63
Total deferred tax	**(63)**	177
Total income tax expense recognised in the current year	**208**	506

The income tax expense can be reconciled to the accounting profit as follows:	2012 £000	2011 £000
Profit before tax	**1,252**	1,512
Profit before tax multiplied by standard rate of corporation tax in the UK 24.5% (2011: 26.5%)	**307**	401
Effects of:		
Expenses not deductible for tax purposes	**29**	67
Differences in overseas tax rates	**110**	152
Adjustments in respect of prior years	**(106)**	(114)
Tax losses utilised in respect of subsidiaries	**(73)**	-
Non taxable income	**(59)**	-
Total income tax expense recognised in the statement of comprehensive income	**208**	506

9. Intangible Assets

Group	Goodwill £000	Software £000	Intellectual property £000	Customer Relations £000	Patents £000	Total £000
Cost						
At 1 January 2011	5,858	788	-	-	-	6,646
Additions from continuing operations	-	291	-	-	-	291
Additions from acquisitions in the period	498	79	819	325	21	1,742
At 31 December 2011	6,356	1,158	819	325	21	8,679
Additions from continuing operations	-	328	-	-	-	328
At 31 December 2012	**6,356**	**1,486**	**819**	**325**	**21**	**9,007**
Amounts written off						
At 1 January 2011	-	229	-	-	-	229
Amortisation expense	-	153	137	54	3	347
At 31 December 2011	-	382	137	54	3	576
Amortisation expense	-	164	164	65	4	397
At 31 December 2012	**-**	**546**	**301**	**119**	**7**	**973**
Net book value						
At 31 December 2011	6,356	776	682	271	18	8,103
At 31 December 2012	**6,356**	**940**	**518**	**206**	**14**	**8,034**

Impairment of goodwill

Goodwill, amounting to £5.858m (2011: £5.858m), relates to a cash generating unit, being the Instem business acquired on the management buyout of Instem LSS Limited on 27 March 2002. Goodwill amounting to £0.498m (2011: £0.498m), relates to a cash generating unit ("CGU"), being the BioWisdom Limited (now Instem Scientific Limited) business acquired on 3 March 2011. During the period, goodwill was tested for impairment in accordance with IAS 36 "Impairment of Assets". The recoverable amount for the cash generating units exceeded the carrying amounts of goodwill. The recoverable amount for each of the cash generating units 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 cashflows from approved forecasts for two years which have then been extrapolated to cover a period of five years, being the maximum period which management considers can reliably be forecast. At 31 December 2012 a pre-tax discount rate of 12.5% (2011: 12.0%) was used in the value in use calculation based on the Group's cost of capital.

Projected cashflows were based on detailed profit and cashflow projections through to 2014 with a 2.5% assumption of growth beyond 2014. The projections were based on reasonable assumptions in respect of business growth rates, payroll and other cost increases and related cashflow impacts.

The recoverable amount of the Instem CGU exceeds the carrying amount of this CGU by 22% and, for the Instem Scientific CGU, by 10%. 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 8 percentage points, or a reduction in certain revenues of in excess of 10%, would result in the recoverable amount of the Instem CGU being equal to its carrying amount. An increase of 4 percentage points in the Instem Scientific discount rate, or a reduction in revenues of 3% 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.

NOTES TO THE FINANCIAL STATEMENTS

10. Investments

Company	£000's
Cost	
At 1 January 2011	16,500
Additions	609
At 31 December 2011	17,109
Additions	86
At 31 December 2012	**17,195**

The company has two wholly-owned subsidiaries and seven wholly-owned sub-subsidiaries, details of which are as follows:

Company	Activity	Ownership
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	Non-trading	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	100% by Instem LSS Limited

NOTES TO THE FINANCIAL STATEMENTS

11. Property, Plant and Equipment

Group	Short leasehold property £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2011	45	2,847	12	2,904
Additions	8	144	-	152
Disposals	(48)	(1,495)	-	(1,543)
Acquisitions through business combinations	-	1	-	1
Exchange adjustment	-	4	-	4
At 31 December 2011	5	1,501	12	1,518
Additions	9	149	-	158
Disposals	-	-	(12)	(12)
Exchange adjustment	-	-	-	-
At 31 December 2012	**14**	**1,650**	**-**	**1,664**
Depreciation				
At 1 January 2011	20	2,706	12	2,738
Depreciation expense	15	101	-	116
Eliminated on disposals	(35)	(1,492)	-	(1,527)
Exchange adjustment	-	3	-	3
At 31 December 2011	-	1,318	12	1,330
Reclassification	(12)	12	-	-
Depreciation expense	4	154	-	158
Disposals	-	-	(12)	(12)
Exchange adjustment	-	1	-	1
At 31 December 2012	**(8)**	**1,485**	**-**	**1,477**
Net book value				
At 31 December 2011	5	183	-	188
At 31 December 2012	**22**	**165**	**-**	**187**

12. Inventories

Group	2012 £000	2011 £000
Work in progress	**90**	93

	2012 £000	2011 £000
Total gross inventories	**90**	93
Inventory impairment	**-**	-
Net inventories	**90**	93

13. Trade and Other Receivables

Group	2012 £000	2011 £000
Trade receivables	**1,971**	2,008
Amounts recoverable on contracts	**1,232**	590
Other receivables	**-**	15
Prepayments and accrued income	**547**	416
	3,750	3,029
Company		
Amounts owed by group companies	**1,919**	700
Other receivables	**113**	53
	2,032	753

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:

Group	2012 £000	2011 £000
At beginning of year	**6**	2
(Credit)/charge for the year	**(2)**	4
At end of year	**4**	6

The average credit period taken on sale is 54 days (2011: 48 days). No interest is charged on overdue receivables.

Before accepting any new 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.

13. Trade and Other Receivables (continued)

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

		Debt age				
Group 2011		Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts						
Value (£000)		1,896	440	246	16	2,598
%		73	17	9	1	100

		Debt age				
Group 2012		**Current**	**0-30 days**	**31-60 days**	**Over 60 days**	**Total**
Trade receivables/Amounts recoverable on contracts						
Value (£000)		**2,133**	**775**	**250**	**45**	**3,203**
%		**67**	**24**	**8**	**1**	**100**

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

Group		**2012 £000**	2011 £000
Sterling		**1,690**	1,544
Euro		**179**	186
US Dollar		**1,645**	1,150
Renminbi		**235**	148
Hong Kong Dollar		**1**	1
		3,750	3,029

14. Cash and Cash Equivalents

Group		2012 £000	2011 £000
Cash at bank		**11,415**	12,280
Bank overdraft		**(8,965)**	(8,912)
		2,450	3,368
Company			
Cash at bank		**1,365**	2,102

The Group overdraft facility has a net limit of £2,000,000 and gross facility 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. All balances are denominated in Sterling. 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:

Group		2012 £000	2011 £000
Sterling		**743**	2,032
Euro		**38**	100
US Dollar		**1,418**	1,114
Other		**251**	122
		2,450	3,368
Company			
Sterling		**1,365**	2,102

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

15. Trade and Other Payables

		2012 £000	2011 £000
Group - Current			
Trade payables		**334**	404
Other taxation and social security costs		**134**	163
Other payables		**82**	152
Accruals and other payables		**704**	839
Deferred income		**5,783**	6,036
		7,037	7,594
Company - Current			
Trade payables		**11**	40
Amounts owed to group companies		**260**	103
Other payables		**-**	411
Accruals and deferred income		**38**	19
		309	573

15. Trade and Other Payables (continued)

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

Group	2012 £000	2011 £000
Sterling	**3,010**	3,878
US Dollar	**3,819**	3,590
Renminbi	**206**	124
Hong Kong Dollar	**2**	2
	7,037	7,594
Company		
Sterling	**309**	573

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 receivable of £235,000 (2011: £64,000) represents the amount of income taxes receivable in respect of current and prior years.

17. Financial Liabilities

Group and Company	Total £000	Less than one year £000	One to two years £000	More than two years £000
2011				
Loan Note	500	250	250	-

	Total £000	Less than one year £000	One to two years £000	More than two years £000
2012				
Loan Note	250	250	-	-

Loan Note

The Loan Note was issued on 3 March 2011. The loan note is unsecured and bears interest at the rate of 7%.

Due to the short maturity the directors believe the carrying value approximates to fair value.

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.

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 2012 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 £0.20m.

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 2012 indications are that the UK bank rate will remain at 0.5% over the next 12 months. On the basis of the floating net cash position at 31 December 2012 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).

18. Financial Instruments (continued)

2011	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Group				
Trade and other receivables	-	-	2,613	2,613
Cash and cash equivalents	-	3,368	-	3,368
Trade and other payables	-	-	(1,395)	(1,395)
Loan notes	(500)	-	-	(500)
	(500)	3,368	1,218	4,086

2012	**Fixed rate £000**	**Floating rate £000**	**Non-interest bearing £000**	**Total £000**
Group				
Trade and other receivables	**-**	**-**	**3,203**	**3,203**
Cash and cash equivalents	**-**	**2,450**	**-**	**2,450**
Trade and other payables	**-**	**-**	**(1,120)**	**(1,120)**
Loan notes	**(250)**	**-**	**-**	**(250)**
	(250)	**2,450**	**2,083**	**4,283**

2011	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Company				
Trade and other receivables	-	500	253	753
Cash and cash equivalents	-	2,102	-	2,102
Trade and other payables	-	-	(573)	(573)
Loan notes	(500)	-	-	(500)
	(500)	2,602	(320)	1,782

2012	**Fixed rate £000**	**Floating rate £000**	**Non-interest bearing £000**	**Total £000**
Company				
Trade and other receivables	**-**	**500**	**1,532**	**2,032**
Cash and cash equivalents	**-**	**1,365**	**-**	**1,365**
Trade and other payables	**-**	**-**	**(309)**	**(309)**
Loan notes	**(250)**	**-**	**-**	**(250)**
	(250)	**1,865**	**1,223**	**2,838**

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 one customer which individually amounts to more than 10% of the Group revenue. Revenue in respect of this customer for the year ended 31 December 2012 amounted to £1.1m (2011: £0.8m). In 2011 no customers exceeded 10% of revenue.

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 2012, its £2.0m bank facility was undrawn and available (2011: £2.0m).

In respect of the Group's interest-bearing financial liabilities, the table in note 17 includes details at the reporting date of the periods in which they mature.

19. Deferred Tax

Group	2012 £000	2011 £000
Deferred tax assets		
Amounts due to be recovered within 12 months	**-**	-
Amounts due to be recovered after 12 months	**735**	404
Deferred tax liabilities		
Amounts due to be settled within 12 months	**-**	-
Amounts due to be settled after 12 months	**(3)**	(125)
Net position	**732**	279

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

	2012 £000	2011 £000
At beginning of the year	**279**	321
Charge to income for the year	**(46)**	(177)
Credit to other comprehensive income for the year	**421**	98
Effect of change in tax rate – equity	**(32)**	(30)
Recognised on acquisitions	**-**	69
Other	**-**	(2)
Adjustments in respect of prior years	**110**	-
At end of the year	**732**	279

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

Deferred tax asset/(liability)	Accelerated tax depreciation £000	Tax losses £000	Retirement benefit obligations £000	Other timing differences £000	Total £000
At 1 January 2011	(104)	26	399	-	321
Charge to profit or loss for the year	(88)	(26)	(63)	-	(177)
Credit/(charge) to equity for the year	28	(30)	68	-	66
Recognised on acquisitions	(336)	405	-	-	69
At 31 December 2011	(500)	375	404	-	279
Credit/(charge) to profit or loss for the year	42	(30)	(58)	-	(46)
Credit to equity for the year	-	-	389	-	389
Adjustments in respect of prior years	100	-	-	10	110
At 31 December 2012	**(358)**	**345**	**735**	**10**	**732**

Unrecognised tax losses not included at 31 December 2012 were £3,571,000 (2011: £3,834,000).

20. Retirement Benefit Obligations

Defined contribution pension scheme

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

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 2012 were £0.43m (2011: £0.39m).

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 2012 were £0.03m (2011: £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 2012 were £0.09m (2011: £0.09m).*

Instem LSS Stakeholder Scheme - the Scheme was a contributory money purchase scheme which closed on 31 December 2008. Employer contributions for the year ended 31 December 2012 were £nil (2011: £nil).

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 2012 were £0.03m (2011: £0.03m).

20. Retirement Benefit Obligations (continued)

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 1/60th of final pensionable pay per year of service to 1/80th with effect from 6 April 2003. The scheme closed to future accrual on 31 December 2008.

The latest full actuarial valuation was carried out at 5 April 2011 and was updated to 31 December 2012 by a qualified independent actuary.

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.

	2012 %	2011 %
Discount rate	**4.5**	5.4
Expected return on plan assets	**4.5**	5.3
Inflation	**2.9**	3.1
Rate of increase in salaries	**N/A**	N/A
Rate of increase in pensions in payment	**2.9**	3.1
Rate of increase in pensions in deferment	**2.9**	3.1
Life Expectancy assumptions		
Male currently aged 45	**24.9**	24.4
Female currently aged 45	**26.2**	26.8
Male currently aged 65	**23.6**	22.5
Female currently aged 65	**24.7**	24.9

ANALYSIS OF AMOUNT CHARGED TO OPERATING EXPENSES	**2012 £000**	2011 £000
Current service cost	**-**	-
Past service cost	**-**	-
Total operating charge	**-**	-

ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	**2012 £000**	2011 £000
Expected returns on pension scheme assets	**288**	334
Interest on pension scheme liabilities	**(372)**	(394)
Net finance charge	**(84)**	(60)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME	**2012 £000**	2011 £000
Actual return less expected return on pension scheme assets	**172**	(480)
Experience losses arising on scheme liabilities	**(763)**	-
Changes in assumptions underlying the present value of the scheme liabilities	**(1,242)**	88
Actuarial loss recognised in other comprehensive income	**(1,833)**	(392)

20. Retirement Benefit Obligations (continued)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		2012 £000	2011 £000
Opening defined benefit obligation		**6,946**	6,956
Interest cost		**372**	394
Actuarial loss/(gain)		**2,005**	(88)
Benefits paid		**(123)**	(316)
Closing defined benefit obligation		**9,200**	6,946

CHANGES IN THE FAIR VALUE OF PLAN ASSETS		2012 £000	2011 £000
Opening plan assets		**5,330**	5,479
Expected return		**288**	334
Actuarial gain/(loss)		**172**	(480)
Contributions by employer		**337**	313
Benefits paid		**(123)**	(316)
Closing plan assets		**6,004**	5,330

The actual return on plan assets was a negative return of £460,000 (2011: negative return of £146,000)

		2012 £000	2011 £000
Present value of funded obligations		**(9,200)**	(6,946)
Fair value of plan assets		**6,004**	5,330
Deficit		**(3,196)**	(1,616)
Related deferred tax asset		**735**	404
Net pension liability		**(2,461)**	(1,212)

20. Retirement Benefit Obligations (continued)

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME		**Cumulative 2012 £000**	Cumulative 2011 £000
Actual return less expected return on pension scheme assets		**(359)**	(531)
Experience gains and losses arising on scheme liabilities		**(1,673)**	(910)
Changes in assumptions underlying the present value of the scheme liabilities		**(564)**	678
Cumulative actuarial loss recognised in other comprehensive income		**(2,596)**	(763)

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

	2012		2011	
	£000	**%**	£000	%
Equities	**4,263**	**71**	3,838	72
Property	**120**	**2**	107	2
Bonds	**541**	**9**	426	8
Corporate Bonds	**600**	**10**	586	11
Cash	**480**	**8**	320	6
Other	**-**	**-**	53	1
	6,004	**100**	5,330	100

The five year history of experience adjustments are as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of defined benefit obligation	**(9,200)**	(6,946)	(6,956)	(5,893)	(4,901)
Fair value of plan assets	**6,004**	5,330	5,479	4,812	3,752
Deficit	(3,196)	(1,616)	(1,477)	(1,081)	(1,149)
Experience adjustments on plan liabilities	**(763)**	-	(77)	(18)	(431)
Experience adjustments on plan assets	**172**	(480)	235	557	(1,390)

The Group expects to contribute £412,000 to its defined benefit plans in the next financial year (2012: £321,000).

21. Share Capital

Allotted, called up and fully paid		2012 £000	2011 £000
At 1 January			
11,714,286 ordinary shares of 10p each		**1,171**	1,171
50,372 ordinary shares of 10p each, issued during year		**5**	-
At 31 December		**1,176**	1,171

50,372 shares were issued in the year in part settlement of the deferred contingent consideration in respect of the acquisition of Instem Scientific Limited.

22. Earnings Per Share

Basic earnings per share is 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.

	2012			2011		
	Profit after tax (£000's)	**Weighted average number of shares (000's)**	**Earnings per share (pence)**	Profit after tax (£000's)	Weighted average number of shares (000's)	Earnings per share (pence)
Earnings per share-basic	**1,044**	**11,755**	**8.9**	1,006	11,714	8.6
Potentially dilutive shares	**-**	**-**	**-**	-	134	(0.1)
Earnings per share-diluted	**1,044**	**11,755**	**8.9**	1,006	11,848	8.5

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.

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 (2011: £nil).

NOTES TO THE FINANCIAL STATEMENTS

25. Operating Leases Payable

		2012 £000	2011 £000
Minimum lease payments under operating leases recognised as an expense in the year		**424**	416

At the reporting date, the Group has outstanding commitments under operating leases, which fall due as follows:		2012 £000	2011 £000
Land and buildings			
Within one year		**364**	363
In the second to fifth year inclusive		**1,168**	1,048
After five years		**727**	863
Plant and machinery			
Within one year		**3**	61
In the second to fifth year inclusive		**5**	2
		2,267	2,337

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 contain 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.

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 £1.21m (2011: £nil). The intercompany balances due to the Company at the year-end totalled £1.66m (2011: £0.60m).

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

Key management compensation:	**2012 £000**	2011 £000
Fees for services provided as non-executive directors		
Salaries and short term benefits	**92**	117
Post employment retirement benefits	**-**	-
Employers' national insurance & social security costs	**10**	10
Share based payment charge	**-**	-
Executive directors		
Salaries and short term benefits	**251**	221
Post employment retirement benefits	**48**	30
Employers' national insurance & social security costs	**18**	14
Share based payment charge	**43**	41
Other key management		
Salaries and short term employee benefits	**336**	346
Post employment retirement benefits	**24**	26
Employers' national insurance & social security costs	**29**	31
Share based payment charge	**36**	31

In addition the Company paid £0.05m (2011: £0.05m) to Instem Ventures Limited, a company owned by Adrian Gare, a shareholder. The balance outstanding at the end of the year was £nil (2011: £0.01m).

Key management are considered to be the Directors together with the Senior Vice-President of Client Services, the Senior Vice-President of Product Development and the Chief Scientific Officer.

27. 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.

Inventory impairment provisions

The Group makes provision for work in progress deemed to be irrecoverable. This provision is established on a specific contract by contract basis based on management's prior experience and their assessment of the present value of estimated future cash flows.

Receivables impairment provisions

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.

27. Accounting Estimates and Judgements (continued)

Pension valuation assumptions

Assumptions are used in the actuarial valuation of the Group's defined benefit pension schemes. Details of these assumptions are disclosed in note 20.

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.

NOTES

NOTES

NOTES

NOTES

NOTES

NOTES

Directors and Advisers

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
Diamond Way
Stone Business Park
Stone
Staffordshire
ST15 0SD
Tel: +44 1785 825600
Fax: +44 1785 825633
www.instem.com

Company No: 07148099

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

BANKERS
Nat West Bank
1 Spinningfields Square
Manchester
M2 3AP

NOMINATED ADVISER AND BROKER
Nplus1 Singer Advisory LLP
One Bartholomew Lane
London
EC2N 2AX

REGISTRARS
Computershare
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

FINANCIAL PUBLIC RELATIONS
Newgate Threadneedle
5th Floor
33 King William Street
London
EC4R 9AS

Information Solutions For Life

UK

Global Headquarters -
UK & European Operations
Diamond Way
Stone Business Park
Stone
Staffordshire, ST15 0SD
United Kingdom
Tel: +44 (0) 1785 825600

USA

North American Headquarters
Eight Tower Bridge
161 Washington Street
Suite 1550, 15th Floor
Conshohocken, PA 19428
United States
Tel: +1 (610) 941 0990

China

Asia-Pacific Headquarters
Room 205, Building 16
88 Darwin Road
Zhangjiang High-Tech Park, Pudong District
Shanghai
China, 201203
Tel: +86 (0) 21 5131 2080

The Group employs over 110 people in seven offices in the US, UK, China and India; with a full service distributor in Japan.

e-mail

investors@instem.com

instem.com