Information Solutions For Life

Instem plc
Annual Report
2013

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 used 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 established 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 over 400 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.

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Financial Highlights

- Revenues increased 7% to £11.4m (2012: £10.7m)
  - Recurring revenues increased 9% to £8.2m (2012: £7.5m), representing 72% of total revenues
  - Software as a Service (SaaS) revenues increased 35% to £1.5m (2012: £1.1m)
- Adjusted operating profit* increased 8% to £1.5m (2012: £1.3m)
- Reported profit before tax of £0.7m (2012: £1.3m)
- Cash balance as at 31 December 2013 of £2.1m (2012: £2.5m)
  - £1.6m net investment in acquisitions during 2013
- Adjusted** earnings per share of 8.6p (2012: 7.8p)
  - Basic earnings per share of 4.5p (2012: 8.9p)

The Group has continued to increase its share of the preclinical market and made important strategic progress including expansion of its product sets and entry into the early phase clinical market. The increase in new SaaS deals signed in the year is particularly pleasing. Our SaaS offer is compelling for clients and provides the Group with increasing long-term revenue visibility.

Instem, like other pharmaceutical services companies, is beginning to see an improvement in its end markets, with the global pharmaceutical market re-focusing its efforts into early stage development work. In addition, the industry's regulatory and fiscal pressures continue to work in Instem's favour, driving demand for all areas of our product portfolio.

With the benefit of a full year's contribution from both the Instem Clinical and more recent Perceptive Instruments acquisitions, we look forward to 2014 with confidence.

P J Reason,
Chief Executive

Strategic Developments

- Logos Technologies (rebranded "Instem Clinical") and its ALPHADAS® product suite acquired in May 2013. Fully integrated and performing strongly
- First entrance into the in vitro R&D market through the acquisition of Perceptive Instruments Ltd. in November 2013

Operational Highlights

- Customer retention rate remained strong at 95%
- Signed 10-year US$6.2m revenue SaaS contract for Provantis secured with the National Institute of Environmental Health Sciences (NIEHS), a US Government body
- SaaS deals with two top 10 pharmaceutical companies
- Provantis licensed for 3 additional clients in North America, Europe and India in Q4
- First Instem Clinical contract won with Retroscreen Virology Group plc (AIM:RVG), with additional sites licensed in December 2013
- Signed SEND contracts with a major healthcare customer, a top three pharmaceutical company and three further clients in H2

* Before amortisation of intangibles on acquisitions, share-based payments and non-recurring costs.

**After adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions.

MARKET LEADERSHIP

"Instem has again proven to be the leading supplier in the preclinical market place, extending its footprint with existing clients and across the industry as a whole."

statement

Chairman's Statement

During the year, Instem successfully continued its dual strategy of both increasing its market share and extending its product portfolio. In particular, the two acquisitions successfully completed in the year were important examples of the execution of this strategy. Behind the scenes the Group has also invested in strengthening its management resources to ensure that it has the capacity to continue to implement its strategic plans.

Instem has again proven to be the leading supplier in the preclinical market place, extending its footprint with existing clients and across the industry as a whole. Of great importance, and testimony to the quality of our people and our products, was the decision of the National Institute of Environmental Health Sciences (NIEHS) to use Provantis as the cornerstone IT system for its National Toxicology Program in the USA. In addition, several strategically important contracts were gained, including both existing and new clients choosing Instem's preferred SaaS deployment strategy. It was particularly pleasing to see uptake by industry elites across the entirety of our product set.

The first of two acquisitions made in the year was Logos Technologies (now rebranded Instem Clinical) which was acquired in May. This acquisition has enabled Instem to make an important strategic step into the adjacent early phase clinical market. During the seven months as part of the Instem Group, the Board was delighted that Instem Clinical was able to exceed its plans. Instem Clinical is now fully integrated within the Group and we are starting to see the market benefits of it being part of a larger business.

In November the Group completed its second acquisition in the period, purchasing Perceptive Instruments, a business that provides world-leading software and hardware solutions supporting in vitro research and development within the broad life sciences market. We believe the acquisition will particularly enhance our offering in the preclinical market. As the acquisition was late in the year, it had little impact on our 2013 performance.

As outlined in the January Trading Update, although overall order intake in 2013 was encouraging, particularly in the latter half of the year, contractual discussions regarding a significant contract remained ongoing at the year-end, consequently affecting the overall 2013 revenue and profits performance. Whilst there is clear potential for consolidation within the fragmented supplier base, our priority during 2014 will be to maximise the synergistic benefit created for Instem Clinical and Perceptive Instruments as a result of being part of the Instem Group. Nevertheless, should appropriate strategic opportunities arise during the year every effort will be made to achieve further consolidation.

The pharmaceutical market continues to undergo structural changes, and once again this created some uncertainty that impacted client purchasing decisions during the year. There have, however, been nascent signs of a recovery. Pharmaceutical companies are prioritising investment in early stage drug development and the sector outlook for 2014 is improving.

The Board believes that the significant progress achieved during the year continues to provide the necessary platform for growth, both organic and through further selective acquisitions.

D Gare
Chairman

CONTINUED GROWTH

"Instem has continued to increase its reach with existing clients and expand the number of clients it serves"

report

Strategic Report

The breadth of Instem's business has grown significantly over the past year, as the portfolio of leading products for the early development healthcare market has been expanded through organic and acquisitive activity. Instem continues to service many of the world's leading pharmaceutical organisations and laboratories, providing the tools to streamline processes within the industry whilst significantly reducing costs.

As well as securing customers for traditional licences, Instem also saw further uptake of its software deployed via the SaaS business model, which is proving to be an increasingly compelling value proposition for organisations of all sizes. Total SaaS revenue for 2013 was up 35% to £1.5m (2012: £1.1m). This, in conjunction with annual licence renewals, continues to provide the Group with strong forward visibility. Recurring revenues for the year, including SaaS and support and maintenance revenues, amounted to 72% of total revenues (2012: 70%).

Strategic acquisitions enhance product offering and expand addressable market

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 providers, such as Instem. There is a need to consolidate this disparate supplier landscape and enhance data integration amongst and between the customer bases.

Instem has an impressive and longstanding customer list of leading global pharmaceutical, chemical, academic and government research organisations. Instem is ideally positioned with its international sales model and geographical presence to sell additional products to these customers, either through third-party licensing agreements or acquired technology. In the year, Instem has expanded its range of products through the acquisitions of two complementary technology companies.

In May 2013, Instem acquired London-based Logos Technologies and its ALPHADAS software suite. The initial consideration paid amounted to £0.55 million with additional consideration of up to £4.45 million payable through a mixture of cash and shares dependent on profit related targets over the first four years. The first earn-out payment of £0.45 million was made following the period end, comprising £0.2 million in cash and £0.25 million through the issue and allotment of new ordinary shares.

November 2013 marked Instem's entrance into the in vitro R&D marketplace through the acquisition of Perceptive Instruments for an initial cash amount of £1.0 million net of cash acquired, and an additional £0.3 million earn-out, contingent on the performance of the business. The integration of Perceptive Instruments is progressing well.

Both acquisitions are complementary to Instem's product portfolio and are expected to provide additional cross-selling opportunities with existing and new clients.

Product Portfolio

Instem has continued to increase its reach with existing clients and expand the number of clients it serves. Instem offers software via perpetual licences and term-based subscriptions, and is seeing strong growth in demand for its SaaS model.

Provantis

Provantis is the leading product for the management of study data in the preclinical drug safety assessment market and it has continued a strong performance throughout the year generating further sales and maintaining a very high renewal rate for recurring revenues.

In February 2013, Instem won a significant US Government contract with the NIEHS to support National Toxicology Program studies. During the year this contract was extended to enable two additional contract laboratories to utilise Provantis. Other significant client wins included a multi-site North American and European CRO and further clients in India and China.

Provantis continued to generate a steady stream of additional revenue from current clients who licensed additional modules from the suite, increased their user licensing and upgraded to later versions. The large Provantis client base also provides avenues for cross-selling of complementary third party products such as Logbook and ACIS.

Centrus

Centrus is Instem's software suite for the exchange, aggregation, collation and reporting of early drug development information. Modules associated with the US FDA sponsored Standard for the Exchange of Non-Clinical Data (SEND) have proved particularly successful. In May 2013, a world leading healthcare company purchased the complete Centrus software suite, with four further clients, including a top three pharmaceutical company, purchasing SEND related modules during 2013. Centrus submit™ was also recognised for innovation and industry leadership at the 2013 SmartCEO VOLTAGE Awards.

A number of important new modules have been added to the Centrus suite; these offer opportunities for additional sales with existing customers and make the offer more compelling for new clients. Instem is pleased to report that momentum for Centrus seen in the final quarter of the year has continued into 2014.

ALPHADAS

Instem's solution for the early phase clinical market, ALPHADAS, has performed well in the year and has generated strong order intake. The first new contract for Instem Clinical, post-acquisition, was a perpetual licence with Retroscreen Virology Group plc, a virology healthcare business that recently floated on AIM. The Retroscreen project progressed well during 2013 and in December Retroscreen exercised an option in the contract to extend ALPHADAS licensing for additional sites. In December 2013, Simbec Research selected ALPHADAS for deployment in its UK-based Phase I unit.

ALPHADAS version 6 was released during the year, enabling upgrades within the existing customer base and enhancing Instem's competitive position for new product opportunities within the wider early phase clinical market.

Instem Scientific

The re-use of scientific data is an increasing market within the life sciences industry. Instem Scientific's products are designed to enable clients to leverage large volumes of public and proprietary historic data, to enable considerable value to be unlocked from prior research investments. Instem routinely leads or participates in industry groups focused on the challenges and opportunities in this area and in September 2013 Gordon Baxter, Instem's Chief Scientific Officer, was appointed to the Board of one leading industry body, the Pistoia Alliance.

Instem completed the development and launch of the next version of the SRS Data integration platform (version 8.4) in early July 2013, further enhancing our clients' abilities to identify patterns and trends in their data and generate new knowledge and scientific insight. Two new clients for SRS were added in the period.

New versions of OmniViz, an advanced visualisation and data projection solution, were also released in the year. This contributed to securing several additional licence purchases from existing customers and a number of new clients.

Perceptive Instruments ("Perceptive")

Perceptive was acquired to enhance Instem's Study Workflow and Automation Suites. The integration of Perceptive is underway and progressing according to plans with Perceptive making a minimal, five-week contribution to the 2013 fiscal year results. Development focus during 2013 was on a new product, Cyto Study Manager, which we plan to launch in the first half of 2014. The majority of potential clients for Cyto Study Manager are existing Perceptive or Instem customers.

Market Overview

Over recent years the pharmaceutical industry has focused work on drugs in late stage development in an attempt to fill the gap from lost revenues on patent expired drugs. Recently, there have been signs that the global pharmaceutical market is moving resource towards early stage development work to refill the pipeline of preclinical candidates. This is a key development given the Group's position within the early stage development market.

As a consequence, Instem and its pharmaceutical services clients that target the earlier stages of drug development, are beginning to see an improvement in end markets. Citeline®, which claims the world's most comprehensive source of real-time R&D intelligence for the pharmaceutical industry, recently reported a 7.9% increase in the global drug pipeline.

Two key aspects are increasing demand for IT solutions. Firstly, there is an increased preference for regulatory authorities to receive data for new drug submissions electronically. Secondly, there is a growing appetite from pharmaceutical organisations to analyse and mine historic data in order to extract further value and generate additional scientific insight from development work already carried out.

Preclinical market

There is evidence of a more sustained recovery in the preclinical market, including data from the two largest preclinical CROs, Charles River and Covance, who have both reported greater growth and optimism in recent results announcements.

While there were only modest additions of new commercial clients in 2013, Instem's preclinical business benefitted from increased demand from governmental customers. In February 2013, Instem won a contract with the US government NIEHS with a cash value of US$870,000 in the first year, with a potential to extend and expand the agreement up to a further nine years, giving a possible total contract value of between US$6.2 million – US$7.6 million.

Early Stage Clinical market

The early stage clinical market is immediately downstream of preclinical and consequently has also witnessed reduced study volumes in recent years. However, a growing prevalence of patient studies in early phase clinical, to complement the widespread use of healthy volunteers, is extending trial sites into hospital units and increasing the importance of controlling data quality and integrity through the deployment of IT solutions. These factors together with the relatively low levels of automation in early phase clinics have ensured that many opportunities remain for software solutions to gain greater penetration.

Government

Governments in North America, China and Europe are expanding investment in order to: prime advances in basic research, advance therapies with important social needs (but limited return to commercial organisations) and generally improve environmental health. This is of particular importance as such organisations frequently operate on a different economic cycle to the commercial pharmaceutical industry.

Government agencies are indirectly supporting investment in Instem technologies through funding a wide variety of commercial organisations and research institutes as well as purchasing solutions directly for their government research facilities. Through this, Instem's products can also be mandated by authorities for use by third parties involved in public sector programmes.

Growth Strategy

Instem will continue to focus on growing organically through further penetration of existing product suites into pharmaceutical organisations, CROs and research institutions. The Group's aim is to increase recurring revenues and growth by maintaining market leadership with established product suites and introducing new solutions organically, acquisitively and through exclusive third party arrangements, which satisfy an ever increasing proportion of the early drug development market.

The approaching deadline for the requirement to submit SEND data sets presents an important opportunity for Centrus. The growing need for the management of 'Big Data' represents an opportunity for Instem Scientific as companies look to mine large amounts of historical data for the generation of scientific insight.

The trend, where large pharmaceutical organisations prefer to select a smaller number of strategic providers for their research software needs, continues to be the key focus of the Group's acquisition strategy. The Group will continue to selectively pursue additional bolt-on acquisitions that provide access to adjacent markets and additional growth prospects.

OUTLOOK

"…the industry's regulatory and fiscal pressures continue to work in Instem's favour, driving demand for all areas of our product portfolio. "

review

Financial Review

The financial results demonstrate a solid performance in the year with total revenues at £11.4m (2012: £10.7m). As described in the Chairman's Statement, although market conditions were challenging and resulted in the delay in one particularly significant perpetual licence, there are nascent signs of a recovery in end markets. Growth in revenues was principally driven from the UK, with an increase from £1.3m in 2012 to £2.5m, driven by new business orders for ALPHADAS received from Retroscreen Virology,

Instem's business model consists of perpetual licence fees, annual support, SaaS subscriptions and professional services. Approximately 72% of revenue was recurring in nature (2012: 70%), principally from annual support fees and SaaS subscriptions, with a small contribution from professional fees.

The Group continues to generate the majority of its revenue in US dollars and therefore we continued to hedge against currency fluctuations. In the period the average exchange rate was $1.5707/£1.00 compared with an average exchange rate in 2012 of $1.5888/£1.00.

The profit from operations before amortisation of acquired intangibles, share-based payment and non-recurring costs for the year was £1.5m (2012: £1.3m). Operating expenses, comprising primarily salary costs, increased by £0.5m in the year reflecting the two acquisitions during the year.

Amortisation increased due to the acquisitions to £0.6m (2012: £0.4m)

Internal development costs incurred in the period were £1.8m (2012: £1.7m), of which £0.4m was capitalised (2012: £0.3m).

Non-recurring costs of £0.2m include legal and professional fees associated with the two completed acquisitions during the year.

There was an increase in the actuarial deficit on the Group's defined benefit pension scheme during the period calculated in accordance with the provisions of IAS19 that amounted to £0.6m, net of deferred tax (2012: £1.4m), which has been recognised in Other Comprehensive Expense. This was a non-cash charge in the period and arose primarily as a result of higher inflation 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. The defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008.

Cash generated from operations was £2.0m (2012: £0.4m). The Group had cash reserves of £2.1m as at 31 December 2013, compared with £2.5m as at 31 December 2012, after making initial payments (net of cash acquired) for the two acquisitions during the year of £1.6m.

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 a significant proportion of its revenue being earned 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

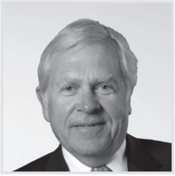
The past year has seen the Group continue to increase its share of the preclinical market and make important strategic progress including expansion of its product sets and entry into the early phase clinical market. The increase in new SaaS deals signed in the year is particularly pleasing. Our SaaS offer is compelling for clients and provides the Group with increasing long-term revenue visibility.

Instem, like other pharmaceutical services companies, is beginning to see an improvement in its end markets, with the global pharmaceutical market re-focusing its efforts into early stage development work. In addition, the industry's regulatory and fiscal pressures continue to work in Instem's favour, driving demand for all areas of our product portfolio.

With the benefit of a full year's contribution from both the Instem Clinical and more recent Perceptive Instruments acquisitions, we look forward to 2014 with confidence.

On behalf of the Board

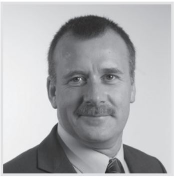
P J Reason
Chief Executive



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

CORPORATE GOVERNANCE STATEMENT

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

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

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's management letter and management's response;
e. considers all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external 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	10/10	3/3	1/1	0/0
N J Goldsmith	10/10	3/3	1/1	0/0
Non-Executive directors				
D Gare	10/10	3/3	1/1	0/0
D M Sherwin	10/10	3/3	1/1	0/0
M F McGoun	9/10	3/3	1/1	0/0

Audit Committee (continued)

The Audit Committee is authorised to:

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

Remuneration Committee

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

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

The Remuneration Committee:

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

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 Company.

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

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

The Nomination Committee:

a. regularly reviews the structure, size and composition (including skills, knowledge and experience required) of the Board compared to its current position and makes recommendations to the Board with regard to any changes;

b. gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and what skills and expertise are needed on the Board in the future;
c. is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise; and
d. evaluates the balance of skills, knowledge and experience on the Board before an appointment is made and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

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

The Nomination Committee also makes recommendations to the Board concerning:

a. formulating plans for succession for both executive and non-executive directors and in particular the key roles of Chairman of the Board and Chief Executive Officer;
b. membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees;
c. the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
d. the re-election by shareholders of any director under the "retirement by rotation" provisions in the Company's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
e. matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Group subject to the provisions of the law and his/her service contract; and
f. the appointment of any director to executive or other office other than to the positions of Chairman of the Board and Chief Executive Officer, the recommendation for which would be considered at a meeting of the full Board.

The Nomination Committee is authorised to:

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

Internal Controls

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

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

Going Concern

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

On behalf of the Board

N J Goldsmith
Director and Company Secretary

16 April 2014

DIRECTORS' REPORT

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2013.

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

Review of the Business

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

1. Total number of customers

In 2013 the Group had in excess of 400 customers (2012: 122 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 2013 was £8.2m (2012: £7.5m)

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 Strategic Report on pages 5 to 10.

Future Developments

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

Research and Development Activities

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

Dividends

The directors do not recommend the payment of a dividend.

Directors

The following directors held office during the year:

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

Details of the directors' service contracts and their respective notice terms are detailed in the Remuneration Committee report on page 20.

Directors and Their Interests

The interests of the directors who held office at 31 December 2013 and up to the date of this report were as follows:

	2013 No. of Shares	2012 No. of Shares
D Gare	**2,278,427**	2,278,427
D M Sherwin	**1,580,066**	1,580,066
P J Reason	**665,287**	665,287
M F McGoun	**14,286**	14,286
N J Goldsmith	**-**	-

Directors' interests in share options are detailed in the Remuneration Committee report on page 21.

Employee Involvement

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

Political Donations

The Group made no political donations in 2013 or 2012.

Financial Instruments

The Group's objectives and policies on financial instruments are set out in note 19 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 20 May 2014 at the offices of Baker Tilly, Manchester. The resolutions to be proposed at the Annual General Meeting, together with explanatory notes appear in a separate notice of Annual General Meeting which is sent to all shareholders. A proxy card for registered shareholders is distributed along with the notice.

Statement as to Disclosure of Information to Auditor

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

Auditor

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

On behalf of the Board

P J Reason
Director

Diamond Way
Stone Business Park
Stone
Staffordshire
ST15 0SD

16 April 2014

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 once. Full details of the elements of each director's remuneration are set out on page 16. Details of share-based payments are shown in note 6 to the financial statements.

Policy on Executive Director Remuneration

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

Basic Salary

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

Performance Related Annual Bonus

Executive directors are eligible for a performance related bonus based on Company performance, in particular, the achievement of profit and cash targets. The performance related annual bonus forms a significant part of the level of remuneration considered appropriate by the Committee. In addition to the formal bonus scheme, the Committee has the discretion to recommend the payment of ad hoc awards to reflect exceptional performance. No bonuses were paid or payable in respect of the year ended 31 December 2013 (2012: £nil).

Pensions

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

Benefits

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

Service Contracts

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

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

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

The emoluments paid to directors in the year ended 31 December 2013 were as follows:

	Salary	Benefits	Pension	**2013 Total**	2012 Total
Executives	£000	£000	£000	**£000**	£000
P J Reason	146	15	24	**185**	180
N J Goldsmith	94	12	13	**119**	119
Non-executives					
D Gare	44	-	-	**44**	44
D M Sherwin	24	-	-	**24**	24
M F McGoun	24	-	-	**24**	24
Total	332	27	37	396	391

Directors' and Employees' Share Options

	Exercise price(£)	Issue date	Held at 31 Dec 2012	Granted During Year	Exercised during Year	Lapsed during Year	**Held at 31 Dec 2013**
P J Reason Ordinary shares	1.750	13/10/2010	187,427	-	-	-	**187,427**
	0.900	14/01/2013	-	23,429	-	-	**23,429**
N J Goldsmith Ordinary shares	2.215	29/11/2011	40,000	-	-	-	**40,000**
	1.760	07/02/2012	20,000	-	-	-	**20,000**
	0.900	14/01/2013	-	15,000	-	-	**15,000**
Employees Ordinary shares	1.750	13/10/2010	304,568	-	-	-	**304,568**
	2.220	03/03/2011	101,351	-	-	-	**101,351**
	2.220	17/10/2011	14,667	-	-	-	**14,667**
	1.115	23/10/2012	40,000	-	-	-	**40,000**
	0.900	14/01/2013	-	61,397	-	-	**61,397**
Total			708,013	99,826	-	-	807,839

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 Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

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

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

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 68. 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 Financial Reporting Council's website at http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx

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 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

17 April 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

CONTINUING OPERATIONS	Note	2013 £000	2012 £000
REVENUE	1	**11,361**	10,661
Operating expenses	2	**(9,685)**	(9,157)
Amortisation of internally generated intangibles		**(226)**	(164)
PROFIT FROM OPERATIONS BEFORE AMORTISATION OF INTANGIBLES ARISING ON ACQUISITION, SHARE-BASED PAYMENT AND NON-RECURRING COSTS		**1,450**	1,340
Amortisation of intangibles arising on acquisition		**(394)**	(233)
Share-based payment		**(96)**	(86)
PROFIT BEFORE NON-RECURRING COSTS		**960**	1,021
Non-recurring (costs)/income	2	**(200)**	137
PROFIT FROM OPERATIONS		**760**	1,158
Finance income	3	**145**	238
Finance costs	4	**(207)**	(144)
PROFIT BEFORE TAXATION		**698**	1,252
Income tax expense	8	**(169)**	(208)
PROFIT FOR THE YEAR		**529**	1,044
OTHER COMPREHENSIVE EXPENSE			
Items that will not be reclassified to profit or loss			
Actuarial loss on retirement benefit obligations	21	**(587)**	(1,833)
Deferred tax on actuarial loss		**30**	389
		(557)	(1,444)
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		**(90)**	(189)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(647)**	(1,633)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(118)**	(589)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**529**	1,044
TOTAL COMPREHENSIVE EXPENSE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**(118)**	(589)
Earnings per share from continuing operations			
Basic	23	**4.5p**	8.9p
Diluted	23	**4.5p**	8.9p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	9	**12,887**		8,034	
Property, plant and equipment	12	**265**		187	
Deferred tax assets	20	**388**		732	
TOTAL NON-CURRENT ASSETS			**13,540**		8,953
CURRENT ASSETS					
Inventories	13	**307**		90	
Trade and other receivables	14	**2,908**		3,750	
Current tax assets	17	**-**		235	
Cash and cash equivalents	15	**2,053**		2,450	
TOTAL CURRENT ASSETS			**5,268**		6,525
TOTAL ASSETS			**18,808**		15,478
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	**7,236**		7,037	
Current tax payable	17	**7**		-	
Financial liabilities	18	**1,250**		250	
TOTAL CURRENT LIABILITIES			**8,493**		7,287
NON-CURRENT LIABILITIES					
Financial liabilities	18	**1,836**		-	
Retirement benefit obligations	21	**3,506**		3,196	
TOTAL NON-CURRENT LIABILITIES			**5,342**		3,196
TOTAL LIABILITIES			**13,835**		10,483
EQUITY					
Share capital	22	**1,176**		1,176	
Share premium	24	**7,892**		7,892	
Merger reserve	24	**(932)**		(932)	
Shares to be issued	24	**270**		174	
Translation reserve	24	**194**		284	
Retained deficit	24	**(3,627)**		(3,599)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**4,973**		4,995
TOTAL EQUITY AND LIABILITIES			**18,808**		15,478

The financial statements on pages 24 to 68 were approved by the board of directors and authorised for issue on 16 April 2014 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013

	Note	2013		2012	
ASSETS		**£000**	**£000**	£000	£000
NON-CURRENT ASSETS					
Investments	10	**23,024**		17,195	
TOTAL NON-CURRENT ASSETS			**23,024**		17,195
CURRENT ASSETS					
Trade and other receivables	14	**1,243**		2,032	
Cash and cash equivalents	15	**277**		1,365	
TOTAL CURRENT ASSETS			**1,520**		3,397
TOTAL ASSETS			**24,544**		20,592
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	**1,264**		309	
Current tax payable	17	**120**		-	
Financial liabilities	18	**1,250**		250	
TOTAL CURRENT LIABILITIES			**2,634**		559
NON-CURRENT LIABILITIES					
Financial liabilities	18	**1,836**		-	
TOTAL NON CURRENT LIABILITIES			**1,836**		-
TOTAL LIABILITIES			**4,470**		559
EQUITY					
Share capital	22	**1,176**		1,176	
Share premium	24	**7,892**		7,892	
Merger reserve	24	**10,702**		10,702	
Shares to be issued	24	**270**		174	
Retained deficit	24	**34**		89	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**20,074**		20,033
TOTAL EQUITY AND LIABILITIES			**24,544**		20,592

The financial statements on pages 24 to 68 were approved by the board of directors and authorised for issue on 16 April 2014 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 2013

		2013		2012	
	Note	£000	£000	£000	£000
CASH FLOWS FROM OPERATIONS					
Profit before taxation		**698**		1,252	
Adjustments for:					
Depreciation		**96**		158	
Amortisation of intangibles		**620**		397	
Share-based payments and shares to be issued		**96**		86	
Adjustments to contingent consideration		**-**		(241)	
Retirement benefit obligations		**(412)**		(337)	
Net foreign exchange gains		**84**		219	
Finance income		**(145)**		(238)	
Finance costs		**207**		144	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**1,244**		1,440
Movements in working capital:					
Increase in inventories			**(210)**		-
Decrease/(Increase) in trade and other receivables			**823**		(953)
Increase/(Decrease) in trade and other payables			**31**		(64)
CASH GENERATED FROM OPERATIONS			**1,888**		423
Finance costs			**(9)**		(60)
Income taxes			**74**		(442)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES			**1,953**		(79)
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		**61**		19	
Purchase of intangible assets		**(407)**		(328)	
Purchase of property, plant and equipment		**(171)**		(158)	
Acquisition of subsidiaries		**(2,710)**		(85)	
Cash acquired with subsidiaries		**1,134**		-	
NET CASH USED IN INVESTING ACTIVITIES			**(2,093)**		(552)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loan notes repaid		**(250)**		(250)	
NET CASH USED IN FINANCING ACTIVITIES			**(250)**		(250)
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(390)**		(881)
Cash and cash equivalents at start of year			**2,450**		3,368
Effects of exchange rate changes on the balance of cash held in foreign currencies			**(7)**		(37)
CASH AND CASH EQUIVALENTS AT END OF YEAR	15		**2,053**		2,450

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

		2013		2012	
	Note	**£000**	**£000**	£000	£000
CASH FLOWS FROM OPERATIONS					
Profit before taxation		**65**		972	
Adjustments for:					
Contingent consideration		**-**		(241)	
Finance income		**(3)**		(18)	
Finance cost		**63**		13	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**125**		726
Movements in working capital:					
Decrease/(Increase) in trade and other receivables			**789**		(1,279)
Increase in trade and other payables			**955**		146
CASH GENERATED FROM/(USED IN) OPERATIONS			**1,869**		(407)
Finance costs			**-**		(13)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES			**1,869**		(420)
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		**3**		18	
Acquisition of subsidiaries		**(2,710)**		(85)	
NET CASH USED IN INVESTING ACTIVITIES			**(2,707)**		(67)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loan notes repaid		**(250)**		(250)	
NET CASH USED IN FINANCING ACTIVITIES			**(250)**		(250)
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(1,088)**		(737)
Cash and cash equivalents at start of year			**1,365**		2,102
CASH AND CASH EQUIVALENTS AT END OF YEAR	15		**277**		1,365

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 2012	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
Profit for the year	-	-	-	-	-	529	529
Other comprehensive expense for the year	-	-	-	-	(90)	(557)	(647)
Total comprehensive expense	-	-	-	-	(90)	(28)	(118)
Share-based payment	-	-	-	96	-	-	96
Balance as at 31 December 2013	**1,176**	**7,892**	**(932)**	**270**	**194**	**(3,627)**	**4,973**

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 2012	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
Total comprehensive expense for the year	-	-	-	-	(55)	(55)
Share-based payment	-	-	-	96	-	96
Balance as at 31 December 2013	**1,176**	**7,892**	**10,702**	**270**	**34**	**20,074**

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

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

BASIS OF PREPARATION
The Group's accounting reference date is 31 December.

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

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

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

In accordance with Section 408 of the Companies Act 2006 the company has elected not to present its own income statement. The loss for the year of the parent company is £55,000 (2012: profit £972,000).

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 2013 and 31 December 2012. (2012: excludes Instem India Private Limited as the values were considered immaterial). Statutory accounts for Perceptive Instruments Limited have not been produced at 31 December 2013, but they will be produced for the eighteen month period ending 31 December 2014

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 an asset or a liability is re-measured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss. Contingent consideration is recognised initially at fair value and subsequently carried at amortised cost; the difference between the gross amount and the fair value is recognised in the income statement over the period in which the liability is settled using the effective interest method.

GOING CONCERN
Having made appropriate enquiries, the directors consider that the Group has adequate resources to enable it to continue in operation for the foreseeable future. The Group has a significant proportion of recurring revenue from a well-established global customer base, supported by a largely fixed cost base. A working capital facility is in place to support the Group's working capital needs. The Group has net current liabilities of £3.2m at 31 December 2013, including deferred income of £5.8m (2012: £5.8m). The deferred income recurs each year on renewal of contracts, and in general the Group has either received the cash or has raised invoices for the services. As a result, this amount reverses during the financial year in the normal course of business. The Group has strong positive cash reserves, as well as the working capital facility of £2m referred to above which, at 31 December 2013 was unutilised. The Group has, therefore, sufficient liquid assets to cover its day to day needs, in addition to its strong trading cashflow generation.

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

ACCOUNTING POLICIES

REVENUE RECOGNITION

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

Revenue comprises the value of software licence sales, SaaS subscription, installation, training, 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, SaaS 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 OF INTANGIBLES ARISING ON ACQUISITION, SHARE-BASED PAYMENT AND NON-RECURRING COSTS

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

PROFIT FROM OPERATIONS

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

SEGMENTAL REPORTING

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

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

FOREIGN CURRENCIES

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

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

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 ($)
Instem India Pvt Limited	Indian Rupees (INR)
Instem Clinical Holdings Limited	Sterling (£)
Instem Clinical Limited	Sterling (£)
Instem Clinical Inc	US Dollars ($)
Logos Technologies Limited	Sterling (£)
Perceptive Instruments Limited	Sterling (£)

ACCOUNTING POLICIES

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

	US Dollar ($)	Hong Kong Dollar (HK$)	Chinese Renminbi (¥)	Indian Rupee (INR)
Average rate for year ended 31 December 2012	1.5888	12.3237	10.0170	87.3028
Closing rate at 31 December 2012	1.6155	12.5228	10.0699	88.5428
Average rate for year ended 31 December 2013	1.5707	12.1832	9.6579	91.7069
Closing rate at 31 December 2013	1.6494	12.7915	10.0096	102.1390

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 a cash 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.

ACCOUNTING POLICIES

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

INTANGIBLE ASSETS

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

Intellectual Property, Customer Relationships and Patents

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

Goodwill

Goodwill on acquisitions, being the excess of the fair value of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired, is capitalised and tested for impairment on an annual basis.
Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to 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
IT Hardware and Software	-	12½% - 33% per annum

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

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

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

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

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

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

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

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

ACCOUNTING POLICIES

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.

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.

ACCOUNTING POLICIES

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

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

- The "finance cost" which was previously the difference between the interest on liabilities and expected return on assets is replaced by a "net interest cost". This means that the expected return on assets is effectively based on the discount rate with no allowance made for any outperformance expected from the Scheme's asset holding.

- Actual administration expenses are required to be included in the Statement of Financial Position.

The Group has not restated 2012 numbers as the additional charge which arises is not considered to be material.

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 2013. 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 9 'Financial Instruments' – effective 1 January 2014

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

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

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

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

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

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

IFRS 11 'Joint Arrangements' – effective 1 January 2014

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

IFRS 14 'Regulatory deferral accounts (not yet endorsed by the EU) – effective 1 January 2014

IFRIC 21 'Levies (not yet endorsed by the EU) – effective 1 January 2014

IFRSs ADOPTED IN THE YEAR

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

IFRS 13 'Fair Value Measurement' – effective 1 January 2013

IFRS 7 'Financial Instruments – Disclosures – Amendment; Offsetting Financial Assets and Financial Liabilities' – effective 1 January 2013

IAS 1 'Presentation of Financial Statements – Amendments' – effective 1 January 2013

IAS 19 'Employee Benefits' – (Amended) – effective 1 January 2013

1. Segmental Reporting

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

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

		REVENUE	
		2013 **£000**	2012 £000
INFORMATION BY PRODUCT TYPE			
Licence fees		**2,282**	1,775
Annual support fees		**6,307**	6,188
SaaS subscription fees		**1,543**	1,141
Professional services		**1,175**	1,373
Funded development initiatives		**54**	184
		11,361	10,661

		REVENUE	
		2013 **£000**	2012 £000
INFORMATION BY GEOGRAPHICAL LOCATION			
United Kingdom		**2,496**	1,311
Rest of Europe		**1,991**	2,147
USA and Canada		**5,871**	6,135
Rest of World		**1,003**	1,068
		11,361	10,661

		NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION	
		2013 **£000**	2012 £000
INFORMATION BY GEOGRAPHICAL LOCATION			
United Kingdom		**13,120**	8,183
USA and Canada		**14**	29
Rest of World		**18**	9
		13,152	8,221

Major Customers

The Group generates revenue from no customers which individually amount to more than 10% of the Group revenue (2012: one such customer generated revenues of £1.1m).

2. Profit from Operations

	2013 £000	2012 £000
Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	**96**	158
Amortisation of intangible assets	**620**	397
Research and development costs	**1,379**	1,434
Foreign exchange gains recognised in operating expenses	**(84)**	(219)
Operating lease rentals:		
Plant and machinery	**4**	61
Land and buildings	**376**	363
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**	15
Other services:		
Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	**38**	20
Audit related assurance services	**15**	11
Taxation services - Compliance	**11**	10
Taxation services - Advisory	**8**	2
Corporate finance services	**25**	25
	112	83

2. Profit from Operations (continued)

The following table analyses the nature of expenses:

	2013 £000	2012 £000
Staff costs (see note 5)	**6,235**	6,024
Depreciation (see note 12)	**96**	158
Operating lease rentals	**380**	424
Software maintenance charges	**333**	257
Licence costs	**110**	436
Other expenses	**2,531**	1,858
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**9,685**	9,157

Non-Recurring (Costs)/Income

The Group incurred costs of £0.2m (2012: £0.10m) in connection with acquisition activities. The Group recognised a credit of £0.24m in 2012 in relation to the re-assessment of contingent consideration.

3. Finance Income

	2013 £000	2012 £000
Bank interest	**61**	19
Foreign exchange gains	**84**	219
	145	238

4. Finance Costs

	2013 £000	2012 £000
Bank loans and overdrafts	**9**	47
Unwinding discount	**63**	-
Net interest charge on pension scheme	**135**	84
Other	**-**	13
	207	144

5. Employees

	2013 Number	2012 Number
Average monthly number (including executive directors)		
By role:		
Directors, administration and supervision	**39**	35
Software design, sales and customer service	**84**	79
	123	114
	2013 £000	2012 £000
Employment costs:		
Wages and salaries	**5,207**	5,000
Social security costs	**514**	495
Other pension costs	**514**	529
	6,235	6,024

A charge of £0.1m (2012: £0.1m) 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.

	2013		2012	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	**708,015**	**1.82**	737,824	1.87
Granted	**99,826**	**0.90**	60,000	1.33
Lapsed	**-**	**-**	(89,809)	1.89
Outstanding at end of the year	**807,841**	**1.71**	708,015	1.82
Exercisable at 31 December	**491,996**	**1.75**	-	-

The options outstanding at 31 December 2013 had exercise prices of £0.900, £1.115, £1.750, £1.760, £2.215 and £2.220. (2012: £1.115, £1.750, £1.760, £2.215 and £2.220) and a weighted average remaining contractual life of 7.4 years (2012: 8.10 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:

	2013	2012
Average exercise price	**£0.90**	£1.33
Average market price	**£1.35**	£1.47
Average vesting period (years)	**3**	3
Expected volatility	**17.7%**	17.9%-19.1%
Option life (years)	**10**	10
Expected life	**6**	6
Risk free rate	**1.14%**	0.95%-1.29%
Expected dividend yield	**0%**	0%
Expected lapse rate	**0%**	0%
Fair value of options	**£0.25**	£0.30-£0.45

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 564,106 shares (2012: 464,281 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 (2012: £0.02m).

7. Directors' Emoluments

	2013 £000	2012 £000
Amounts payable by Instem plc:		
Emoluments	**92**	92
Money purchase pension contributions	**-**	-
Amounts payable by subsidiary companies:		
Emoluments	**267**	251
Money purchase pension contributions	**37**	48
Total emoluments	**396**	391
	2013 Number	2012 Number
Number of directors to whom retirement benefits are accruing under:		
Defined contribution schemes	**2**	2

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

8. Income Taxes

Income taxes recognised in the statement of comprehensive income	2013 £000	2012 £000
Current tax:		
UK corporation tax on profits of the year	**42**	179
Double tax relief	**-**	(109)
Foreign tax	**147**	224
Foreign tax in respect of previous years	**(227)**	-
Adjustments in respect of previous years	**121**	27
Adjustment in respect of R&D tax credit	**-**	(50)
Total current tax	**83**	271
Deferred tax:		
Current year charge	**11**	-
Origination and reversal of temporary differences	**-**	(38)
Adjustments in respect of previous years	**11**	(83)
Retirement benefit obligation	**64**	58
Total deferred tax	**86**	(63)
Total income tax expense recognised in the current year	**169**	208

The income tax expense can be reconciled to the accounting profit as follows:	2013 £000	2012 £000
Profit before tax	**698**	1,252
Profit before tax multiplied by standard rate of corporation tax in the UK 23.25% (2012: 24.5%)	**162**	307
Effects of:		
Expenses not deductible for tax purposes	**50**	29
Fixed asset timing differences	**1**	-
Differences in overseas tax rates	**63**	110
Adjustments in respect of prior years	**(95)**	(106)
Tax losses utilised in respect of subsidiaries	**(15)**	(73)
Tax losses carried forward	**3**	-
Non taxable income	**-**	(59)
Total income tax expense recognised in the statement of comprehensive income	**169**	208

9. Intangible Assets

Group	Goodwill £000	Software £000	Intellectual property £000	Customer Relationships £000	Patents £000	Total £000
Cost						
At 1 January 2012	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
Additions from continuing operations	-	407	-	-	-	407
Additions from acquisitions in the period	3,031	-	1,403	632	-	5,066
At 31 December 2013	**9,387**	**1,893**	**2,222**	**957**	**21**	**14,480**
Amounts written off						
At 1 January 2012	-	382	137	54	3	576
Amortisation expense	-	164	164	65	4	397
At 31 December 2012	-	546	301	119	7	973
Amortisation expense	-	226	303	87	4	620
At 31 December 2013	**-**	**772**	**604**	**206**	**11**	**1,593**
Net book value						
At 31 December 2012	6,356	940	518	206	14	8,034
At 31 December 2013	**9,387**	**1,121**	**1,618**	**751**	**10**	**12,887**

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £0.3m (2012: £0.3m) with accumulated amortisation of £0.2m (2012: £0.2m)

Impairment of goodwill

Goodwill amounting to £5.858m (2012: £5.858m) relates to a cash generating unit (CGU), being the Instem business acquired on the management buyout of Instem LSS Limited on 27 March 2002. Goodwill amounting to £0.498m (2012: £0.498m), relates to a CGU, being the BioWisdom Limited (now Instem Scientific Limited) business acquired on 3 March 2011. Goodwill amounting to £2.482m, relates to a CGU, being the Logos Holdings Limited (now Instem Clinical Holding Limited) business acquired on 10 May 2013. Goodwill amounting to £0.549m, relates to a CGU, being the Perceptive Instruments Limited business acquired on 21 November 2013.

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

The key assumptions used, which are based on management’s past experience, for the value in use calculations are those regarding the discount rates, growth rates and direct costs during the period. The value in use calculations are based on the future cashflows from approved forecasts for two years which have been extrapolated to cover a period of five years, and then a terminal value calculated using the Gordon Growth Model, to take account of the software development cycle and the high percentage of recurring revenues from the customer base. At 31 December 2013 a pre-tax discount rate of 13.0% (2012: 12.5%) 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 2015 with a 2.5%-10% assumption of growth beyond 2015. The projections were based on reasonable assumptions in respect of business growth rates, payroll and other cost increases and related cashflow impacts.

9. Intangible Assets (continued)

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

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

10. Investments

Company	£000's
Cost	
At 1 January 2012	17,109
Additions	86
At 31 December 2012	17,195
Additions	5,829
At 31 December 2013	**23,024**

The company has four wholly-owned subsidiaries and ten 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	Dormant	100% by Instem Scientific Limited
Instem Scientific Inc USA	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem Scientific Limited

10. Investments (continued)

Company	Activity	Ownership
Instem India Pvt Limited (company number U73100MH2012FTC231951) India	Software development	100% by Instem LSS Limited
Instem Clinical Holdings Limited (company number 05840032) England and Wales	Holding of intellectual property rights and investment in group companies	100% by Instem plc
Instem Clinical Limited (company number 06959053) England and Wales	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Instem Clinical Inc. USA	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Logos Technologies Limited (company number 05836842) England and Wales	Dormant	100% by Instem Clinical Holdings Limited
Perceptive Instruments Limited (company number 02498351) England and Wales	Development, manufacture and supply of software and hardware products for in vitro study data collection and study management in the genetic toxicology, microbiology and immunology markets	100% by Instem plc

11. Business Combinations

Subsidiary acquired

2013	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration transferred £000
Instem Clinical Holdings Limited (formerly Logos Holdings Limited)	Holding of intellectual property rights and investment in group companies	10 May 2013	100	3,298

Consideration transferred

	Instem Clinical Holdings Limited £000
Initial cash consideration (including £25,000 stamp duty)	575
Contingent consideration – Payable in cash	200
Contingent consideration – To be settled in shares	250
Contingent consideration – To be settled in cash or shares	2,273
Total consideration estimate at 31 December 2013	**3,298**

The contingent consideration is based on achieving certain cumulative Earnings Before Interest & Taxation (EBIT) performance related conditions over 4 periods ending 30 April 2016 . The contingent consideration provided in the financial statements represents the Group management's estimate of the amount payable over this period.

11. Business Combinations (continued)

Discounting has been applied, which gives a difference of £164,000 between the contractual cost of the acquisition and its fair value. This will be charged to the statement of comprehensive income over the period of consideration. The method used to derive the above values was present value.

Acquisition related costs amounting to £98,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Non-recurring costs' line item in the consolidated statement of comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition	Instem Clinical Holdings Limited £000
Non-Current Assets	
Intellectual property	964
Customer related assets	105
Investment in subsidiaries	1
Property, plant and equipment	1
Deferred Tax on losses brought forward	158
Current Assets	
Trade and other receivables	54
Cash and cash equivalents	22
Current Liabilities	
Trade and other payables	(243)
Non-Current Liabilities	
Deferred Tax on acquisition	(246)
Fair value of identifiable net assets acquired	816

11. Business Combinations (continued)

Goodwill arising on acquisition	Instem Clinical Holdings Limited £000
Consideration transferred	3,298
Less: fair value of identifiable net assets acquired	(816)
Goodwill arising on acquisition	2,482

Goodwill arose on the acquisition of Instem Clinical Holdings Limited because the premium paid by the Company reflects the expected benefit of synergies, revenue growth and future market development. Instem Clinical Holdings Limited was acquired to expand and enhance the Group's product and service offering within the Global Life Sciences operating segment. These benefits have not been recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition	Instem Clinical Holdings Limited £000
Consideration paid in cash	575
Less: cash and cash equivalent balances acquired	(22)
Net cash outflow	553

Impact of acquisition on the results of the Group

Included in the profit for the year is £581,000 attributable to the additional business generated by Instem Clinical Holdings Limited. Revenue for the year includes £1,340,000 in respect of Instem Clinical Holdings Limited.

Had this business combination been effected at 1 January 2013, Instem Clinical Holdings Limited would have added £1,418,000 to the Group's revenues and £297,000 to the profit from continuing operations.

Subsidiary acquired

2013	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration transferred £000
Perceptive Instruments Limited	Development, manufacture and supply of software and hardware products for in vitro study data collection and study management in the genetic toxicology, microbiology and immunology markets	21 November 2013	100	2,435

Consideration transferred

	Perceptive Instruments Limited £000
Initial cash consideration	2,085
Contingent consideration – Payable in cash	300
Deferred consideration – Payable in cash	50
Total consideration estimate at 31 December 2013	2,435

11. Business Combinations (continued)

The contingent consideration is based on performance related conditions over 1 year as follows:

The contingent consideration is based on achieving a certain revenue target over a 1 year period ending 20 November 2014. The contingent consideration provided in the financial statements represents the Group management's estimate of the amount payable over this period.

Acquisition related costs amounting to £73,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Non-recurring costs' line item in the consolidated statement of comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition	Perceptive Instruments Limited £000
Non-Current Assets	
Intellectual property	439
Customer related assets	527
Property, plant and equipment	4
Current Assets	
Inventories	17
Trade and other receivables	99
Cash and cash equivalents	1,112
Current Liabilities	
Trade and other payables	(109)
Non-Current Liabilities	
Deferred Tax on acquisition	(203)
Fair value of identifiable net assets acquired	**1,886**

Goodwill arising on acquisition	£000
Consideration transferred	2,435
Less: fair value of identifiable net assets acquired	(1,886)
Goodwill arising on acquisition	**549**

Goodwill arose on the acquisition of Perceptive Instruments Limited because the premium paid by the Company reflects the expected benefit of synergies, revenue growth and future market development. Perceptive Instruments Limited was acquired to expand and enhance the Group's product and service offering within the Global Life Sciences operating segment. These benefits have not been recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

11. Business Combinations (continued)

Net cash outflow on acquisition	Perceptive Instruments Limited £000
Consideration paid in cash	2,085
Less: cash and cash equivalent balances acquired	(1,112)
Net cash outflow	973

Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of £7,000 attributable to the additional business generated by Perceptive Instruments Limited. Revenue for the year includes £36,000 in respect of Perceptive Instruments Limited.

Had this business combination been effected at 1 January 2013, Perceptive Instruments Limited would have added £842,000 to the Group's revenues and £287,000 to the profit from continuing operations.

12. Property, Plant and Equipment

Group	Short leasehold property £000	IT Hardware & Software £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2012	5	1,501	12	1,518
Additions	9	149	-	158
Disposals	-	-	(12)	(12)
At 31 December 2012	14	1,650	-	1,664
Additions	-	171	-	171
Disposals	-	(1)	-	(1)
Acquisitions through business combinations	-	5	-	5
Exchange adjustment	-	(4)	-	(4)
At 31 December 2013	**14**	**1,821**	**-**	**1,835**
Depreciation				
At 1 January 2012	-	1,318	12	1,330
Reclassification	(12)	12	-	-
Depreciation expense	4	154	-	158
Disposal	-	-	(12)	(12)
Exchange adjustment	-	1	-	1
At 31 December 2012	(8)	1,485	-	1,477
Depreciation expense	4	92	-	96
Disposals	-	(1)	-	(1)
Reclassification	12	(12)	-	-
Exchange adjustment	-	(2)	-	(2)
At 31 December 2013	**8**	**1,562**	**-**	**1,570**
Net book value				
At 31 December 2012	22	165	-	187
At 31 December 2013	**6**	**259**	**-**	**265**

13. Inventories

Group	2013 £000	2012 £000
Work in progress	**307**	90

	2013 £000	2012 £000
Total gross inventories	**307**	90
Inventory impairment	**-**	-
Net inventories	**307**	90

14. Trade and Other Receivables

Group	2013 £000	2012 £000
Trade receivables	**1,990**	1,971
Amounts recoverable on contracts	**425**	1,232
Prepayments and accrued income	**493**	547
	2,908	3,750
Company		
Amounts owed by group companies	**1,225**	1,919
Other receivables	**18**	113
	1,243	2,032

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	2013 £000	2012 £000
At beginning of year	**4**	6
Credit for the year	**(4)**	(2)
At end of year	**-**	4

The average credit period taken on sale is 31 days (2012: 54 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.

14. 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 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

				Debt age		
Group 2013		**Current**	**0-30 days**	**31-60 days**	**Over 60 days**	**Total**
Trade receivables/Amounts recoverable on contracts						
Value (£000)		**1,619**	**488**	**94**	**214**	**2,415**
%		**67**	**20**	**4**	**9**	**100**

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

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

Group		**2013 £000**	2012 £000
Sterling		**1,083**	1,690
Euro		**67**	179
US Dollar		**1,598**	1,645
Renminbi		**156**	235
Other		**4**	1
		2,908	3,750

15. Cash and Cash Equivalents

Group		2013 £000	2012 £000
Cash at bank		**11,051**	11,415
Bank overdraft		**(8,998)**	(8,965)
		2,053	2,450
Company			
Cash at bank		**277**	1,365

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 items of the Group's assets. The bank facility is reviewed in April each year.

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

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

Group		2013 £000	2012 £000
Sterling		**601**	743
Euro		**82**	38
US Dollar		**733**	1,418
Renminbi		**619**	238
Other		**18**	13
		2,053	2,450
Company			
Sterling		**277**	1,365

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

16. Trade and Other Payables

		2013 £000	2012 £000
Group - Current			
Trade payables		**525**	334
Other taxation and social security costs		**192**	134
Other payables		**-**	82
Accruals		**743**	704
Deferred income		**5,776**	5,783
		7,236	7,037
Company - Current			
Trade payables		**80**	11
Amounts owed to group companies		**1,080**	260
Accruals		**104**	38
		1,264	309

16. Trade and Other Payables (continued)

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

Group		2013 £000	2012 £000
Sterling		**3,500**	3,010
US Dollar		**3,531**	3,819
Renminbi		**202**	206
Other		**3**	2
		7,236	7,037
Company			
Sterling		**1,264**	309

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

17. Current Taxation

The Group current tax payable of £7,000 (2012: receivable £235,000) represents the amount of income taxes payable/receivable in respect of current and prior years.

The Company current tax payable of £120,000 (2012: £nil) represents the amount of income taxes payable in respect of current and prior years.

18. Financial Liabilities

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

	Total £000	**Less than one year £000**	**One to two years £000**	**More than two years £000**
2013				
Contingent consideration	**3,086**	**1,250**	**980**	**856**

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. This was repaid in full during 2013.

Contingent Consideration

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

19. 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 2013 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 £0.30m.

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 2013 indications are that the UK bank base interest rate will not materially differ from 0.5% over the next 12 months. On the basis of the floating net cash position at 31 December 2013 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).

19. Financial Instruments (continued)

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

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

2012	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Company				
Trade and other receivables	-	-	2,032	2,032
Cash and cash equivalents	-	1,365	-	1,365
Trade and other payables	-	-	(309)	(309)
Loan notes	(250)	-	-	(250)
	(250)	1,365	1,723	2,838

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

19. Financial Instruments (continued)

Credit risk

Management aims to minimise the risk of credit losses.

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

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

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

The Group generates external revenue from no customers which individually amount to more than 10% of the Group revenue (2012: one such customer generated revenues of £1.1m).

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 14 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 2013, its £2.0m bank facility was undrawn and available (2012: £2.0m).

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

20. Deferred Tax

Group		2013 £000	2012 £000
Deferred tax assets			
Amounts due to be recovered within 12 months		-	-
Amounts due to be recovered after 12 months		388	735
Deferred tax liabilities			
Amounts due to be settled within 12 months		-	-
Amounts due to be settled after 12 months		-	(3)
Net position		388	732

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

		2013 £000	2012 £000
At beginning of the year		732	279
Charge to income for the year		(75)	(46)
Charge to equity		(258)	389
Adjustments in respect of prior years		(11)	110
At end of the year		388	732

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 2012	(500)	375	404	-	279
Charge to profit or loss for the year	42	(30)	(58)	-	(46)
Charge 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
Charge to profit or loss for the year	127	(143)	(64)	5	(75)
Credit to equity for the year	(446)	158	30	-	(258)
Adjustments in respect of prior years	(9)	-	-	(2)	(11)
At 31 December 2013	**(686)**	**360**	**701**	**13**	**388**

Unrecognised tax losses not included at 31 December 2013 were £4,883,000 (2012: £5,246,000) due to uncertainty over the timing of the recoverability of these losses.

21. Retirement Benefit Obligations

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

Defined contribution pension schemes

Group Personal Pension Plan - the scheme was created on 31 December 2008. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5%. The employer also contributes to the Scheme for former members of Instem LSS Pension Scheme at rates varying from 5% to 18%. Employer contributions for the year ended 31 December 2013 were £0.40m (2012: £0.43m).

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 2013 were £0.03m (2012: £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 2013 were £0.09m (2012: £0.09m).

BioWisdom GPP Scheme - the Scheme is a Group Personal Pension arrangement with Winterthur Life (now part of Friends Life) and was set up in 2001. Employee members must contribute at least 3% of basic salary and the employer contributes up to a maximum of 6%. Employer contributions for the year ended 31 December 2013 were £0.03m (2012: £0.03m).

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 Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Group must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in the accounts.

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

The Scheme exposes the Group to a number of risks:

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

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

The latest full actuarial valuation was carried out at 5 April 2011 and was updated to 31 December 2013 by a qualified independent actuary.

21. Retirement Benefit Obligations (continued)

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.

	2013 %	2012 %
Discount rate	**4.6**	4.5
Inflation	**3.5**	2.9
Rate of increase in salaries	**N/A**	N/A
Rate of increase in pensions in payment	**3.5**	2.9
Rate of increase in pensions in deferment	**3.5**	2.9
Life Expectancy assumptions	**Years**	Years
Male currently aged 45	**25.0**	24.9
Female currently aged 45	**26.3**	26.2
Male currently aged 65	**23.7**	23.6
Female currently aged 65	**24.8**	24.7

ANALYSIS OF AMOUNT CHARGED TO OPERATING EXPENSES	2013 £000	2012 £000
Current service cost	**-**	-
Past service cost	**-**	-
Total operating charge	**-**	-

ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	2013 £000	2012 £000
Interest on pension scheme assets	**273**	288
Interest on pension scheme liabilities	**(408)**	(372)
Net finance charge	**(135)**	(84)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	2013 £000	2012 £000
Gains on pension scheme assets in excess of interest	**(612)**	(172)
Experience losses arising on scheme liabilities	**-**	763
Changes in assumptions underlying the present value of the scheme liabilities	**1,199**	1,242
Actuarial loss recognised in other comprehensive expense	**587**	1,833

21. Retirement Benefit Obligations (continued)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		2013 £000	2012 £000
Opening defined benefit obligation		**9,200**	6,946
Interest cost		**408**	372
Actuarial loss		**1,199**	2,005
Benefits paid		**(278)**	(123)
Closing defined benefit obligation		**10,529**	9,200

CHANGES IN THE FAIR VALUE OF PLAN ASSETS		2013 £000	2012 £000
Opening plan assets		**6,004**	5,330
Expected return		**273**	288
Actuarial gain		**612**	172
Contributions by employer		**412**	337
Benefits paid		**(278)**	(123)
Closing plan assets		**7,023**	6,004

The actual return on plan assets was a positive return of £885,000 (2012: £460,000)

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION		2013 £000	2012 £000
Present value of funded obligations		**(10,529)**	(9,200)
Fair value of plan assets		**7,023**	6,004
Deficit		**(3,506)**	(3,196)
Related deferred tax asset		**701**	735
Net pension liability		**(2,805)**	(2,461)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY		2013 £000	2012 £000
Opening net defined benefit liability		**3,196**	1,616
Net interest expense		**135**	84
Remeasurements		**587**	1,833
Contributions by employer		**(412)**	(337)
Closing net defined benefit liability		**3,506**	3,196

21. Retirement Benefit Obligations (continued)

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE		**Cumulative 2013 £000**	Cumulative 2012 £000
Actual return less expected return on pension scheme assets		**253**	(359)
Experience gains and losses arising on scheme liabilities		**(1,673)**	(1,673)
Changes in assumptions underlying the present value of the scheme liabilities		**(1,763)**	(564)
Cumulative actuarial loss recognised in other comprehensive expense		**(3,183)**	(2,596)

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

	2013		2012	
	£000	**%**	£000	%
Equities	**4,986**	**71**	4,263	71
Property	**211**	**3**	120	2
Bonds	**632**	**9**	541	9
Corporate Bonds	**632**	**9**	600	10
Cash	**492**	**7**	480	8
Other	**70**	**1**	-	-
	7,023	**100**	6,004	100

The five year history of experience adjustments are as follows:

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of defined benefit obligation	**(10,529)**	(9,200)	(6,946)	(6,956)	(5,893)
Fair value of plan assets	**7,023**	6,004	5,330	5,479	4,812
Deficit	**(3,506)**	(3,196)	(1,616)	(1,477)	(1,081)
Experience adjustments on plan liabilities	**-**	(763)	-	(77)	(18)
Experience adjustments on plan assets	**612**	172	(480)	235	557

The Group expects to contribute £0.4m to its defined benefit plans in the next financial year (2012: £0.4m).

21. Retirement Benefit Obligations (continued)

The following sensitivities apply to the value placed on the liabilities:

Adjustments to assumptions		Approximate effect on Liabilities £000
DISCOUNT RATE		
Plus 0.50% pa		(979)
Minus 0.50%		1,125
INFLATION		
Plus 0.50%		951
Minus 0.50%		(935)
LIFE EXPECTANCY		
Plus 1 year		305
Minus 1 year		(312)

22. Share Capital

Allotted, called up and fully paid		**2013 £000**	2012 £000
At 1 January			
11,764,658 ordinary shares of 10p each (2012: 11,714,286)		**1,176**	1,171
50,372 ordinary shares of 10p each, issued during 2012		**-**	5
At 31 December		**1,176**	1,176

50,372 shares were issued in 2012 in part settlement of the deferred contingent consideration in respect of the acquisition of Instem Scientific Limited.

23. 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.

	2013			2012		
	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	**529**	**11,765**	**4.5**	1,044	11,755	8.9
Potentially dilutive shares	**-**	**15**	**-**	-	-	-
Earnings per share-diluted	**529**	**11,780**	**4.5**	1,044	11,755	8.9

Adjusted Earnings Per Share

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

	2013			2012		
	Adjusted Profit after tax (£000's)	**Weighted average number of shares (000's)**	**Earnings per share (pence)**	Adjusted Profit after tax (£000's)	Weighted average number of shares (000's)	Earnings per share (pence)
Earnings per share-basic	**1,017**	**11,765**	**8.6**	921	11,755	7.8
Potentially dilutive shares	**-**	**15**	**-**	-	-	-
Earnings per share-diluted	**1,017**	**11,780**	**8.6**	921	11,755	7.8

24. 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.

25. Capital Commitments

There were no capital commitments at the end of the financial year (2012: £nil).

26. Operating Leases Payable

		2013 £000	2012 £000
Minimum lease payments under operating leases recognised as an expense in the year		**380**	424

At the reporting date, the Group has outstanding commitments under operating leases, which fall due as follows:		2013 £000	2012 £000
Land and buildings			
Within one year		**295**	364
In the second to fifth year inclusive		**868**	1,168
After five years		**604**	727
Plant and machinery			
Within one year		**4**	3
In the second to fifth year inclusive		**8**	5
		1,779	2,267

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.

27. Related Party Transactions

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year the Company traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £0.73m (2012: £1.21m). The net intercompany balances due to the Company at the year-end totalled £0.02m (2012: £1.66m).

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

Key management compensation:	**2013 £000**	2012 £000
Fees for services provided as non-executive directors		
Salaries and short term benefits	**86**	92
Post employment retirement benefits	**-**	-
Employers' national insurance & social security costs	**9**	10
Share-based payment charge	**-**	-
	95	102
Executive directors		
Salaries and short term benefits	**267**	251
Post employment retirement benefits	**37**	48
Employers' national insurance & social security costs	**20**	18
Share-based payment charge	**38**	43
	362	360
Other key management		
Salaries and short term employee benefits	**414**	336
Post employment retirement benefits	**25**	24
Employers' national insurance & social security costs	**38**	29
Share-based payment charge	**36**	36
	513	425

In addition the Company paid £0.05m (2012: £0.05m) to Instem Ventures Limited, a company owned by A Gare, a shareholder. The balance outstanding at the end of the year was £nil (2012: £nil).

In addition the Company paid £0.006m (2012: £nil) to Noble Adamson Limited, a company owned by M McGoun, the independent non-executive director and a shareholder. The balance outstanding at the end of the year was £nil (2012: £nil).

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

28. Critical Accounting Estimates and Judgments

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

Fair value of assets acquired and calculation of contingent consideration

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

28. Critical Accounting Estimates and Judgments (continued)

The contingent consideration provided in the financial statements represents the Group management's estimate of the net present value of the amount payable over the related period.

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.

29. 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.

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Directors and Advisors

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

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