



Instem plc
Annual Report
2015



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 450 clients through full service offices in the United States, United Kingdom and China with additional locations in India and Japan.

Our clients include these fine organisations...



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highlights

Highlights

Financial Highlights

- Revenues increased 22% to £16.3m (2014: £13.4m)
 - Recurring revenues increased 9% to £10.0m (2014: £9.2m)
 - Software as a Service (SaaS) revenues increased 14% to £2.1m (2014: £1.8m)
- EBITDA* increased 43% to £2.5m (2014: £1.7m)
- Adjusted** profit before tax of £1.7m (2014: £1.1m)
- Loss before tax of £0.4m (2014: profit £0.2m)
 - After charging £1.4m of deferred contingent consideration (2014: £nil)
- Adjusted** basic earnings per share of 13.3p (2014: 8.4p)
- Adjusted** fully diluted earnings per share of 12.9p (2014: 8.3p)
- Net cash balance as at 31 December 2015 of £2.2m (2014: £1.7m)
 - After paying £1.3m of deferred contingent consideration (2014: £0.3m)

Operational Highlights

- Final deferred contingent consideration was paid for Perceptive Instruments and agreed early for Instem Clinical (formerly Logos Technologies) after both exceeded performance criteria.
- Instem Japan incorporated and Tokyo office opened.
- Significant ALPHADAS Contract wins included three announced in May 2015 worth approximately £1.4m.
- Won the majority of SEND business placed worldwide.

Post Balance Sheet Event

On 23 February 2016 the Company announced it had raised £5.0 million (before expenses) by way of a placing of 2,500,000 New Ordinary Shares, at a price of 200 pence per ordinary share, with certain new and existing investors. The net proceeds are intended to be used in the near term primarily to fund growth through acquisition and also for working capital to enhance organic growth.

"Our core addressable markets continue to grow in terms of the number of potential customers and the absolute size. Our products and services recorded significant year-on-year revenue growth during 2015 and we are pleased to report that we entered the new financial year with a strong forward order book. Regulatory requirements and the enlarged drug R&D pipeline are expected to continue to stimulate demand for Instem's solutions and services.

The recently strengthened balance sheet provides opportunities to invest further in our core products and services, accelerate the development of new offerings such as KnowledgeScan and SEND submit™ and play a significant role in consolidating the industry in which we operate.

We therefore look forward to the coming year with confidence and expect to deliver further operational and financial progress."

P J Reason
Chief Executive

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

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

MARKET LEADERSHIP

“We have maintained our pre-eminent position in the preclinical market whilst also winning the majority of business placed globally in the early clinical market.”

statement

Chairman's Statement

The positive market dynamics experienced at the end of 2014 continued throughout the period, providing an encouraging backdrop for the continued development of the Group. I am, therefore, pleased to be able to report that all areas of business achieved successful outcomes for the year.

Consequently, not only has the Group increased revenue and underlying profits during the year, but we are also increasingly optimistic about 2016.

We have maintained our pre-eminent position in the preclinical market whilst also winning the majority of business placed globally in the early clinical market.

A highlight of the year was the market leadership demonstrated by our team offering Standard for the Exchange of Non-clinical Data (SEND) software and services: whereby we once again secured the majority of business placed during 2015. This was particularly important following the announcement from the US Food & Drug Administration ("FDA") mandating SEND at the end of 2014.

A cornerstone of our global leadership strategy for each of our product lines is to ensure that we are able to provide sales and service facilities locally wherever there are substantial groupings of customers. Consequently, we opened an office in Tokyo, Japan, complementing existing Instem Asian locations in Pune, India and Shanghai, China. We expect the Instem Japan facility to start to contribute to our revenues during 2016.

At a corporate level we were pleased to make the final payment for the Perceptive Instruments' acquisition as a result of it exceeding our targets. Further, in December 2015, we announced the early agreement of the Instem Clinical (formerly Logos Technologies) earn-out. Given this business had out-performed in each of its prior earn out years, the Board determined that in order to maximise its potential it was appropriate to fully align the objectives of both its shareholders and the Group.

Following the end of the financial year, in February 2016 the Company announced it had raised £5.0 million (before expenses) by way of a placing of 2,500,000 New Ordinary Shares with new and existing investors. The Board intends to use the proceeds of this placing, along with existing cash resources, to continue the Group's acquisition strategy and to provide additional working capital. We believe that having the funding in place will be of significant benefit for the execution of this strategy, as a result of providing certainty to potential vendors during the negotiation of deal terms.

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

D Gare
Non-Executive Chairman
26 April 2016

CONTINUED GROWTH

“Demand for our products and services from customers in all territories in which we operate continued to increase, reflecting increased levels of pharmaceutical R&D activity.”

report

Strategic Report

Chief Executive's Statement

The twelve months to 31 December 2015 represented another year of significant financial and operational progress across the Group.

The year began with a record order book and a strengthening market backdrop. This was converted into revenue through successful contract execution, supplemented by winning and delivering new business contracts throughout the year.

Notably in 2015, both our clinical and preclinical products and services gained traction, as a result of record numbers of compounds progressing through the early stages of the drug development pipeline. Our laboratory workflow automation solutions were selected to deliver efficiencies, replacing "paper" records, legacy in-house applications or ageing commercial systems. Further, new regulatory requirements also drove the adoption of Instem's technology. Once again, there was a blend of perpetual license sales and operationally effective SaaS deployments, with recurring revenue growing in absolute terms year-on-year. This provides the business with increased revenue visibility and long-term stability.

Importantly for the Group as a whole, the growth experienced in the preclinical market during 2014 now appears to be flowing through into increased activity levels within the early clinical phase of drug development. Consequently, ALPHADAS, the Group's leading early phase clinical software platform, generated record levels of new business.

The Group continues to attract some of the most capable people in the industry, appointing senior new hires within the SEND business and establishing an office in Tokyo, Japan. This office will support distributors and customers across the region.

Operational Review

All areas of the Group are now taking advantage of Instem's global operations with marketing, sales, service delivery and client support now available through offices in the UK, North America, China, India and Japan. Although the Group has operated successfully in Japan through local distributors, establishing an Instem presence is expected to increase demand, in what is the second highest spending nation in the world on pharmaceutical research and development.

The Group's Pune, India operation has moved into much larger premises to accommodate further expansion of software development, back office services and, increasingly, client related service delivery activities. Pune enjoys a reputation for academic excellence and is one of India's most attractive cities in which to live; enabling us to secure both local talent and exceptional candidates from other areas of the country.

Preclinical – Provantis® and Perceptive Instruments

Opportunities for Provantis and Perceptive Instruments solutions within the preclinical market continued to increase during the year as study volumes, mostly carried out by Contract Research Organisations (CROs), accelerated. The Group's "best-of-breed" products increased their share of the preclinical market as customers sought to leverage additional modules and new software features with both new and existing clients increasingly adopting operationally effective SaaS based deployments.

Provantis, the Group's primary preclinical software suite, continued to win licence sales across the Group's client base with continued displacement of legacy in-house systems as new implementation projects progressed during the year. By the end of the first half of 2015, all the Group's US-based SaaS customers were running the

latest product versions, enabling us to achieve higher quality support and increased effectiveness of our delivery infrastructure.

Perceptive Instruments ("Perceptive") continued to perform strongly as part of an enlarged business. In particular, Perceptive had success in up-selling higher value modules, such as AMES study manager and Cyto Study Manager, into existing Instem clients. During the year, due to the strong financial performance of Perceptive Instruments for the period to November 2014, the Group paid the vendors the maximum consideration for the acquisition, in accordance with the original acquisition agreement.

Perceptive is located in Suffolk, UK, and develops, manufactures and supplies software and hardware products for in-vitro study management and data collection in the genetic toxicology, microbiology and immunology markets. Perceptive is the leading technology provider within its niche market and there are few competitors, of any scale, active in the space.

Early Stage Clinical – ALPHADAS™

Our ALPHADAS early phase clinical software solution performed particularly well during 2015. We added five new clients across mainland Europe, Canada and the USA and additional sites/users for existing clients. New releases of ALPHADAS have been widely implemented by existing customers, delivering important new capabilities and enticing clients to adopt further modules from the product suite.

Instem entered the early phase clinical market in 2013 with the acquisition of Logos Technologies, now Instem Clinical, and its product suite ALPHADAS. Since the acquisition, ALPHADAS revenue has grown strongly and is now a core offering of the Group.

Instem Scientific

The transition of Instem Scientific, from a software products business to an 'outcome-led' managed service, continued during the period, with further investment in "KnowledgeScan". KnowledgeScan allows our specialist investigators to provide rigorous insight into potential, and observed issues during all stages of new compound development, by combining powerful information technology with transparent, systematic and comprehensive analytical workflows. The service leverages the Group's powerful big-data technology assets and is designed to monetise the Group's expertise across its extensive scientific content, ontologies and vocabularies, which have been developed over multiple projects during the last 10 years.

We believe this outcome-led service fits well with the ongoing restructuring across the pharmaceutical

industry, which has led to a significant increase in R&D outsourcing. Whilst the financial benefits of Instem Scientific may not be felt by the wider Group immediately, pilot KnowledgeScan projects have progressed extremely well during the year and keep Instem at the leading edge of this field of development.

Electronic Regulatory Submissions (SEND) – submit™

As highlighted in the half-year statement, the new business pipeline for both our software solutions and SEND ("Standard for the Exchange of Non-clinical Data") data set conversion services continued to increase month-on-month during the year as the new electronic regulatory submission standard started to become mandatory in our client community.

Pleasingly, Instem continued to secure the overwhelming majority of all new business placed in this area, converting some of this into revenue in 2015 with the balance contributing to the strong opening order backlog for 2016. We continue to believe that Instem's submit™ software suite offers the most advanced product to meet the requirements of the SEND standard.

As a direct consequence of the increased demand for SEND, the Group further strengthened the submit™ development, sales and implementation teams during the year. In particular, two highly experienced market facing consultants were hired, both of whom have been key members on the SEND committee for over 10 years. We expect these consultants to gain further traction for submit™ during 2016 and beyond.

Market Overview

Citeline®, which claims to have the world's most comprehensive source of real-time R&D intelligence for the pharmaceutical industry, recently reported that the global drug pipeline had increased by 11.5% in the past year with an additional 1,418 drugs added to the pipeline (993 were added in the previous year). The total number of companies with one or more drugs in the regulatory stages of development has now risen to 3,687, an increase of 12.2% on the previous year. This is the biggest increase ever in terms of numbers of companies and the second largest percentage-wise.

Following the record growth recorded in 2014, 2015 again represented the largest annual drug pipeline rise on record, in absolute terms, and there is further evidence that the global pharmaceutical market is still moving resources from late stage clinical development into early stage candidates in order to refill the R&D pipeline.

These drug development activities require specialist services and technologies, with a particular focus on

IT solutions, which enable organisations to reduce timelines, improve cost efficiencies and ensure they are able to meet ever-increasing regulatory demands.

Preclinical Market

The 2016 pipeline shows increases at all phases of development, but the preclinical phase shows the largest rise, with the number of projects up by 13.2% as shown in the recent Citeline® report.

With increased preclinical study volume helping to create opportunities with their pharma sponsors, preclinical CROs continue to report strong demand in North America and increased demand in Europe and Japan in comparison with 2014. Consequently, numerous CROs have been adding or looking to add additional capacity organically or through acquisition. On 7th January 2016 Charles River Laboratories announced its intention to acquire WIL Research and public announcements have talked of continued growth and expansion following completion of the transaction. Both of these large CROs are heavily committed Instem clients and we expect the impact of the merger on Instem will become clearer during 2016.

Early Stage Clinical Market

The Citeline® report details significant growth in the clinical stage of drug development, with 2015 posting the largest increases in this decade in both Phase I (up by 190 drugs/11.4%) and Phase III (up by 146 drugs/18.1%). The growth rate in Phase II slowed but is still at record levels (up by 110 drugs/5.1%). The Phase III figure is particularly encouraging, not just because it is showing significant growth, but also as these are the drugs, which should be feeding into the new release schedule for 2017 and 2018.

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

SEND

The regulatory bodies' preference for the electronic capture, storage and transfer of data for new drug submissions continues to grow and pharmaceutical organisations are seeking tools that can help them to prioritise suitable drug candidates utilising vast volumes of historic data, in addition to managing their compliance risk with the authorities. SEND was developed to speed up and enhance the review process for drug applications by developing electronic tools to analyse and visualise these submissions, and building

data warehouses to rapidly query data across drugs, companies, and clinical and non-clinical disciplines.

As a result, the US Food & Drug Administration has made it mandatory to use SEND for all related study submissions, starting with those run after December 2016 that support the submission of a new drug application. The Directors believe that the annual total market spend on technology and services in respect of SEND will grow to approximately \$150 million in 2019 and we are looking to optimise Instem's offering to all areas of this market.

Government and Academic Research

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

P J Reason

Chief Executive
26 April 2016

OUTLOOK

“Our products and services recorded significant year-on-year revenue growth during 2015 and we are pleased to report that we entered the new financial year with a strong forward order book.”

review

Financial Review

Instem's revenue model consists of perpetual licence income with annual support contracts, professional services fees, SaaS subscriptions and funded development initiatives. Total revenue for the twelve months to 31 December 2015 increased 22% to £16.3m compared with last year. Demand for our products and services from customers in all territories in which we operate continued to increase, reflecting increased levels of pharmaceutical R&D activity.

Revenue growth during the year came from both new and existing customers and was driven primarily from increases in Provantis and ALPHADAS related business.

Total recurring revenue, from support contracts and SaaS based subscriptions, increased 9% during the year to £10.0m (2014: £9.2m), representing 62% of total revenue. SaaS based revenue increased by 14% to £2.1m (2014: £1.8m).

Earnings before interest, tax, depreciation and amortisation increased 43% for the year to £2.5m (2014: £1.7m).

Development costs incurred during the period was £1.9m (2014: £1.3m), of which £0.6m (2014: £0.3m) was capitalised.

Adjusted profit before tax (i.e. 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) was £1.7m (2014: £1.1m). The non-recurring charge of £1.4m, which was previously announced, arose following the early agreement of the final deferred contingent consideration payment relating to the 2013 Instem Clinical (formerly Logos Technologies) acquisition after all profit targets were exceeded. This resulted in a total consideration payment for the Logos business totalling £4.8m, in a mixture of cash and shares, slightly lower than the potential

maximum payable of £5.0m. The total paid up until the end of 2015 was £4.1m, with the remaining balance of £0.7m to be paid in cash in two equal instalments in July 2016 and July 2017.

The Group claimed and received research and development tax credits during the year of £0.2m (2014: £0.1m).

Basic and fully diluted earnings per share calculated on an adjusted basis were ahead of prior year by 58% and 55% respectively.

Net cash generated from operating activities was £2.5m (2014: £0.5m). The Group had net cash reserves of £2.2m at 31 December 2015, compared with £1.7m as at 31 December 2014, after making deferred contingent consideration cash payments for the 2013 Instem Clinical acquisition amounting to £0.7m and one deferred contingent consideration payment in respect of the 2013 Perceptive Instruments acquisition of £0.3m. In addition, a cash payment amounting to £0.3m was made to repay a Loan Note associated with the Instem Clinical acquisition. In line with 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.

The Group's legacy defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008. It experienced an increase in the funding deficit during the year calculated in accordance with the provisions of IAS 19 that amounted to £0.3m (net of deferred tax). This is a non-cash charge and was recognised in Other Comprehensive Income/ (Expense). The overall deficit at the year-end stood at £3.9m, represented by a fair value of assets of £7.9m and a present value of funded obligations of £11.8m. As part of the scheme's triennial actuarial valuation as at 5 April 2014, the Group agreed in June 2015 a schedule of payments to the scheme designed to eliminate the

funding deficit by November 2023. This involves an increase of £0.1m in the Group's current payments to the scheme rising from £0.4m to £0.5m per annum from April 2016.

Post Balance Sheet Event

As described in the Chairman's Statement, following the post year-end fund raising, the Company received £5.0m before expenses to support organic growth and acquisition opportunities.

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, some of which is mitigated by operating costs incurred by its US operation. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth.

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 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 2015, its £2.0m committed bank facility was undrawn (2014: £1.6m available).

Outlook

Our core addressable markets continue to grow in terms of the number of potential customers and the absolute size. Our products and services recorded significant year-on-year revenue growth during 2015 and we are pleased to report that we entered the new financial year with a strong forward order book. Regulatory requirements and the enlarged drug R&D pipeline are expected to continue to stimulate demand for Instem's solutions and services.

The recently strengthened balance sheet provides opportunities to invest further in our core products and services, accelerate the development of new offerings such as KnowledgeScan and SEND submit™ and play a more significant role in consolidating the industry in which we operate.

We therefore look forward to the coming year with increasing confidence in terms of both improved operational progress and our financial performance.

N J Goldsmith
Chief Financial Officer
26 April 2016



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.



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:

	No. of meetings in the period / No. invited to attend		
	Board meetings	Audit Committee	Remuneration Committee
Executive directors			
P J Reason	14/14	2/2	2/2
N J Goldsmith	14/14	2/2	0/0
Non-Executive directors			
D Gare	14/14	2/2	2/2
D M Sherwin	14/14	2/2	2/2
M F McGoun	14/14	2/2	2/2

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 auditors 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 auditor;
- f. reviews the Board's statement on internal reporting systems and keeps the effectiveness of such systems under review; and
- g. considers all other relevant findings and audit programmes of the Group.

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. 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;

Nomination Committee (continued)

- 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 advisors to attend any meeting at the Group's expense if the Nomination Committee considers this reasonably necessary and appropriate.

There were no Nomination Committee meetings held during the year.

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 detailed projections which have been made for the 12 months following the approval of the financial statements. This work gives the directors confidence that the Group has adequate resources to enable it to continue in operation for the foreseeable future. The Group has strong positive cash reserves, as well as a committed working capital facility of £2.0m which at 31 December 2015 was undrawn.

Following the end of the financial year, in February 2016, the Group raised £5.0 million (before expenses) by way of a placing of 2,500,000 New Ordinary Shares with new and existing investors. The Group has, therefore, sufficient liquid assets to cover its day-to-day needs, in addition to its strong trading cash flow generation.

Accordingly the directors continue to adopt the going concern basis for the preparation of the financial statements.

On behalf of the Board

N J Goldsmith
 Director and Company Secretary
 26 April 2016

DIRECTORS' REPORT

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2015.

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

Principal Activities

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

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

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 2015 the Group had in excess of 450 customers (2014: in excess of 400 customers) for continuing products.

2. Recurring revenue

The Group generates a substantial proportion of revenue from fees in respect of annual support, hosting and routine upgrade services. The value of these recurring fees in 2015 was £10.0m (2014: £9.2m).

A more detailed review of the development and performance of the Group's business during the year and its position at the end of the year is set out in the Chairman's Statement, the Strategic Report and Financial Review on pages 5 to 12.

Future Developments

The directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. Investment in business growth initiatives will also allow the business to move into

new product and market areas. The combination of organic growth along with strategic acquisitions will support the expected growth as outlined in the Chairman's Statement and the Strategic Report.

Research and Development Activities

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

Dividends

The directors do not recommend the payment of a dividend.

Directors

The following directors held office during the year:

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

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

Directors and their Interests

The interests of the directors who held office at 31 December 2015 and up to the date of this report were as follows:

	2015 No. of Shares	2014 No. of Shares
D Gare	1,418,427	2,278,427
D M Sherwin	1,380,066	1,580,066
P J Reason	665,287	665,287
M F McGoun	36,786	14,286
N J Goldsmith	-	-

Directors' interests in share options are detailed in the Remuneration report on page 20 to 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 2015 or 2014.

Financial Instruments

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

Indemnity of Officers and Directors

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

Annual General Meeting

The Annual General Meeting of the Company will be held on 26 May 2016 at the offices of RSM UK Audit LLP, 3 Hardman Street, Manchester, M3 3HF. 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 re-appoint RSM UK Audit LLP (formally 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
26 April 2016

DIRECTORS' REMUNERATION REPORT

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

Remuneration Committee

The Remuneration Committee ('the Committee') is composed entirely of non-executive directors. The Committee was formed upon the public listing of the Company on 13 October 2010. The Chairman of the Committee is M F McGoun. The terms of reference for the Committee are to determine the Group's policy on executive remuneration and to consider and approve the remuneration packages for directors and key executives of the Group, subject to ratification by the Board. During the year, the Committee met on two occasions. Full details of the elements of each director's remuneration are set out on page 21. Details of share based payment are shown in note 6 to the financial statements.

Policy on Executive Director Remuneration

The Group'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 Group, such as salary and other benefit arrangements within the Group and the achievement of the Group's strategic objectives. The Committee determines the Group'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 Group 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 Group 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. Bonuses amounting to £0.03m were payable to executive directors in respect of the year ended 31 December 2015 (2014: £nil), were included in accruals at 31 December 2015 and were paid in February 2016.

Pensions

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

Benefits

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

Service Contracts

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

The Board determines the Group'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 M F McGoun has been remunerated through a service company, Noble Adamson Limited.

DIRECTORS' REMUNERATION REPORT

The emoluments paid to directors in the year ended 31 December 2015 were as follows:

	Salary £000	Bonus £000	Benefits £000	Pension £000	2015 Total £000	2014 Total £000
Executives						
P J Reason	158	21	16	26	221	182
N J Goldsmith	102	10	11	11	134	122
Non-executives						
D Gare	44	-	-	-	44	44
D M Sherwin	24	-	-	-	24	24
M F McGoun	24	-	-	-	24	24
Total	352	31	27	37	447	396

Directors' and Employees' Share Options

	Exercise price(£)	Issue date	Held at 31 Dec 2014	Granted during year	Exercised during year	Lapsed during year	Held at 31 Dec 2015
P J Reason Ordinary shares	1.750	13/10/2010	187,427	-	-	-	187,427
	0.900	14/01/2013	23,429	-	-	-	23,429
	0.100	29/07/2015	-	150,000	-	-	150,000
							360,856
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
	0.100	29/07/2015	-	100,000	-	-	100,000
							175,000
Employees Ordinary shares	1.750	13/10/2010	304,568	-	-	-	304,568
	2.220	03/03/2011	93,844	-	-	-	93,844
	2.220	17/10/2011	14,667	-	-	-	14,667
	1.115	23/10/2012	40,000	-	(10,000)	-	30,000
	0.900	14/01/2013	61,397	-	-	-	61,397
	0.100	11/02/2015	-	81,168	-	-	81,168
	0.100	29/07/2015	-	215,000	-	-	215,000
	0.100	21/11/2015	-	50,516	-	-	50,516
							851,160
Total			800,332	596,684	(10,000)	-	1,387,016

Approved by the Board and signed on its behalf by:

M F McGoun
Independent Non-Executive Director
26 April 2016

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 67. 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/auditscopeukprivate>

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Graham Bond FCA (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP
(formerly Baker Tilly UK Audit LLP)
Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

26 April 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

CONTINUING OPERATIONS	Note	Year ended 31 December 2015 £000	Restated Year ended 31 December 2014 £000
REVENUE	1	16,321	13,429
Operating expenses	2	(13,553)	(11,572)
Share based payment		(263)	(108)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ('EBITDA')		2,505	1,749
Depreciation		(156)	(127)
Amortisation of intangibles arising on acquisition		(640)	(640)
Amortisation of internally generated intangibles		(376)	(297)
PROFIT BEFORE NON-RECURRING COSTS	2	1,333	685
Non-recurring costs	2	(1,426)	(123)
(LOSS)/PROFIT AFTER NON-RECURRING COSTS AND BEFORE FINANCE COSTS		(93)	562
Finance income	3	4	9
Finance costs	4	(272)	(359)
(LOSS)/PROFIT BEFORE TAXATION		(361)	212
Taxation	8	(67)	(62)
(LOSS)/PROFIT FOR THE YEAR		(428)	150
OTHER COMPREHENSIVE EXPENSE			
Items that will not be reclassified to profit and loss account			
Actuarial loss on retirement benefit obligations		(339)	(621)
Deferred tax on actuarial loss		61	124
		(278)	(497)
Items that may be reclassified to profit and loss account			
Exchange differences on translating foreign operations		(24)	34
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		(302)	(463)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(730)	(313)
(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		(428)	150
TOTAL COMPREHENSIVE EXPENSE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		(730)	(313)
Earnings per share from continuing operations			
Basic	22	(3.5p)	1.2p
Diluted	22	(3.5p)	1.2p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

	Note	2015		Restated 2014	
		£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	9	12,035		12,439	
Property, plant and equipment	11	376		263	
Deferred tax assets	19	663		574	
TOTAL NON-CURRENT ASSETS			13,074		13,276
CURRENT ASSETS					
Inventories	12	822		506	
Trade and other receivables	13	4,745		4,432	
Cash and cash equivalents	14	2,183		1,676	
TOTAL CURRENT ASSETS			7,750		6,614
TOTAL ASSETS			20,824		19,890
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	1,797		1,364	
Deferred income		7,107		6,811	
Current tax payable	16	541		231	
Financial liabilities	17	385		1,903	
TOTAL CURRENT LIABILITIES			9,830		10,309
NON-CURRENT LIABILITIES					
Financial liabilities	17	448		281	
Retirement benefit obligations	20	3,933		3,881	
TOTAL NON-CURRENT LIABILITIES			4,381		4,162
TOTAL LIABILITIES			14,211		14,471
EQUITY					
Share capital	21	1,304		1,221	
Share premium	23	7,903		7,892	
Merger reserve	23	1,241		(326)	
Shares to be issued	23	641		378	
Translation reserve	23	204		228	
Retained earnings	23	(4,680)		(3,974)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			6,613		5,419
TOTAL EQUITY AND LIABILITIES			20,824		19,890

The financial statements on pages 24 to 67 were approved by the board of directors and authorised for issue on 26 April 2016 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

	Note	2015		2014	
ASSETS		£000	£000	£000	£000
NON-CURRENT ASSETS					
Investments	10	23,395		23,132	
TOTAL NON-CURRENT ASSETS			23,395		23,132
CURRENT ASSETS					
Trade and other receivables	13	2,621		2,231	
Cash and cash equivalents	14	24		97	
TOTAL CURRENT ASSETS			2,645		2,328
TOTAL ASSETS			26,040		25,460
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	3,824		2,322	
Financial liabilities	17	357		1,903	
TOTAL CURRENT LIABILITIES			4,181		4,225
NON-CURRENT LIABILITIES					
Financial liabilities	17	331		281	
TOTAL NON-CURRENT LIABILITIES			331		281
TOTAL LIABILITIES			4,512		4,506
EQUITY					
Share capital	21	1,304		1,221	
Share premium	23	7,903		7,892	
Merger reserve	23	12,875		11,308	
Shares to be issued	23	641		378	
Retained earnings	23	(1,195)		155	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			21,528		20,954
TOTAL EQUITY AND LIABILITIES			26,040		25,460

The financial statements on pages 24 to 67 were approved by the board of directors and authorised for issue on 26 April 2016 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 2015

	Note	2015		2014	
		£000	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit before taxation		(361)		212	
Adjustments for:					
Depreciation		156		127	
Amortisation of intangibles		1,016		937	
Share based payment		263		108	
Retirement benefit obligations		(427)		(398)	
Finance income		(4)		(9)	
Finance costs		272		359	
Increase in deferred contingent consideration		1,361		-	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL					
			2,276		1,336
Movements in working capital:					
Increase in inventories		(313)		(196)	
Increase in trade and other receivables		(71)		(1,436)	
Increase in trade, other payables and deferred income		493	109	743	(889)
CASH GENERATED FROM OPERATIONS					
			2,385		447
Finance costs		(86)		(65)	
Income taxes		205	119	100	35
NET CASH GENERATED FROM OPERATING ACTIVITIES					
			2,504		482
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		4		9	
Purchase of intangible assets		(612)		(369)	
Purchase of property, plant and equipment		(113)		(124)	
Payment of deferred contingent consideration		(950)		(302)	
Repayment of capital of finance leases		(8)		-	
NET CASH USED IN INVESTING ACTIVITIES					
			(1,679)		(786)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		12		-	
Loan notes repaid		(303)		-	
Finance lease interest		(4)		-	
NET CASH USED IN FINANCING ACTIVITIES					
			(295)		-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
			530		(304)
Cash and cash equivalents at start of year			1,676		2,053
Effects of exchange rate changes on the balance of cash held in foreign currencies			(23)		(73)
CASH AND CASH EQUIVALENTS AT END OF YEAR					
	14		2,183		1,676

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015		2014	
		£000	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit before taxation		(1,350)		1	
Adjustments for:					
Finance income		(5)		(6)	
Finance cost		41		50	
Increase in deferred contingent consideration		1,361		-	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			47		45
Movements in working capital:					
Increase in trade and other receivables			(390)		(988)
Increase in trade and other payables			1,506		1,059
NET CASH GENERATED FROM OPERATING ACTIVITIES			1,163		116
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		5		6	
Payment of deferred consideration		(950)		(302)	
NET CASH USED IN INVESTING ACTIVITIES			(945)		(296)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		12		-	
Loan notes repaid		(303)		-	
NET CASH USED IN FINANCING ACTIVITIES			(291)		-
NET DECREASE IN CASH AND CASH EQUIVALENTS			(73)		(180)
Cash and cash equivalents at start of year			97		277
CASH AND CASH EQUIVALENTS AT END OF YEAR	14		24		97

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

	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 2014	1,176	7,892	(932)	270	194	(3,627)	4,973
Profit for the year	-	-	-	-	-	150	150
Other comprehensive income/ (expense) for the year	-	-	-	-	34	(497)	(463)
Total comprehensive income/ (expense)	-	-	-	-	34	(347)	(313)
Shares issued	45	-	606	-	-	-	651
Share based payment	-	-	-	108	-	-	108
Balance as at 31 December 2014	1,221	7,892	(326)	378	228	(3,974)	5,419
Loss for the year	-	-	-	-	-	(428)	(428)
Other comprehensive expense for the year	-	-	-	-	(24)	(278)	(302)
Total comprehensive expense	-	-	-	-	(24)	(706)	(730)
Shares issued	83	11	1,567	-	-	-	1,661
Share based payment	-	-	-	263	-	-	263
Balance as at 31 December 2015	1,304	7,903	1,241	641	204	(4,680)	6,613

COMPANY STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

	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 2014	1,176	7,892	10,702	270	34	20,074
Profit for the year	-	-	-	-	121	121
Shares issued	45	-	606	-	-	651
Share based payment	-	-	-	108	-	108
Balance as at 31 December 2014	1,221	7,892	11,308	378	155	20,954
Loss for the year	-	-	-	-	(1,350)	(1,350)
Shares issued	83	11	1,567	-	-	1,661
Share based payment	-	-	-	263	-	263
Balance as at 31 December 2015	1,304	7,903	12,875	641	(1,195)	21,528

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 public listed company, listed on AIM and 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 presentation of the Consolidated Statement of Comprehensive Income has changed from the previous audited financial statements. The change includes the depreciation charge being presented on the face of the Consolidated Statement of Comprehensive Income rather than being included in operating expenses. The change has been made to provide clarity in the calculation of earnings before interest, taxation, depreciation and non-recurring costs (EBITDA).

The presentation of the Consolidated Statement of Financial Position has changed from the previous audited financial statements. The change is to show deferred income on the face of the Consolidated Statement of Financial Position rather than being included in trade and other payables.

It is the opinion of the directors that the above changes are considered more appropriate to the readers and users to better understand the performance and position of the Group.

The Company has taken advantage of the audit exemption for three of its non-trading subsidiaries Instem Life Science Systems Limited (company number 04339129), Instem Scientific Solutions Limited (company number 03598020) and Logos Technologies Limited (company number 05836842), by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these three subsidiaries which have taken advantage of the exemption from audit. Under this guarantee, the company has a contingent liability of £9.0m.

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 £1,350,000 (2014: profit of £121,000).

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 2015 and 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

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 that the Group has adequate resources to enable it to continue in operation for the foreseeable future. The Group has a significant proportion of recurring revenue from a well-established global customer base, supported by a largely fixed cost base. A committed working capital facility is in place to support the Group's working capital needs. The Group had

ACCOUNTING POLICIES

net current assets (excluding deferred income) of £5.0m at 31 December 2015 (2014: £3.1m). 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. The Group has strong positive cash reserves, as well as a committed working capital facility of £2.0m referred to above which, at 31 December 2015 was undrawn.

Following the end of the financial year, in February 2016, the Group raised £5.0 million (before expenses) by way of a placing of 2,500,000 New Ordinary Shares with new and existing investors. The Group has, therefore, sufficient liquid assets to cover its day-to-day needs, in addition to its strong trading cash flow generation.

Accordingly the directors continue to adopt the going concern basis for the preparation of the financial statements.

REVENUE RECOGNITION

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

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

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

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

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

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.

EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ('EBITDA')

Earnings before interest, taxation, depreciation, amortisation and non-recurring costs (EBITDA) is profit/(loss) arising from the Group's normal trading activities stated before depreciation, amortisation, non-recurring costs, finance income and finance costs, and shown in this way to provide a clearer measure of underlying operating performance.

SEGMENTAL REPORTING

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

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

FOREIGN CURRENCIES

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

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

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

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

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

ACCOUNTING POLICIES

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

	US Dollar (USD)	Hong Kong Dollar (HKD)	Chinese Renminbi (RMB)	Indian Rupee (INR)	Japanese Yen (JPY)
Average rate for year ended 31 December 2014	1.6470	12.7733	10.1437	100.5207	-
Closing rate at 31 December 2014	1.5562	12.0780	9.6686	99.0440	-
Average rate for year ended 31 December 2015	1.5283	11.8503	9.5010	97.8763	179.712
Closing rate at 31 December 2015	1.4941	11.5809	9.6767	98.9288	185.080

FINANCE INCOME

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

FINANCE COSTS

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

LEASING

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

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 Binomial, Monte Carlo or Black Scholes models. The expected life used in the model has

been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

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

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

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

TAXATION

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

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

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

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

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

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the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

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

INTANGIBLE ASSETS

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

Intellectual Property, Customer Relationships and Patents

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

Goodwill

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

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

Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight line basis over their useful economic lives of three 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 a straight line basis as follows:

Short leasehold property	-	Over term of lease
IT hardware and software	-	12½% - 33% per annum

Depreciation is recognised within operating expenses.

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

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

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

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

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

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

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

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

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

INVENTORY

Inventory is stated at the lower of cost and net realisable value. The cost of work in progress comprises direct labour and other direct costs and includes billable employee expenses.

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 however none are held at 31 December 2015.

RETIREMENT BENEFITS

Defined contribution schemes

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

Defined benefit schemes

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

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

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

The rate used to discount the benefit obligations is based on

ACCOUNTING POLICIES

market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

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 2015. 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.

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

IFRS 10 'Consolidated financial statements' – effective 1 January 2016

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

IFRS 15 'Revenue from contracts with customers' effective – 1 January 2018

IFRS 9 'Financial Instruments' effective – 1 January 2018

IAS 27 'Equity method in separate financial statements' (Amended) – effective 1 January 2016

IAS 16 and **IAS 38** 'Clarification of acceptable methods of depreciation and amortisation' (Amendments) – effective 1 January 2016

IFRS 16 'Leases' effective – 1 January 2019

The directors are currently reviewing the implications of IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases' to consider the implications on the financial statements. The directors do not believe that the other above standards will have a material impact on the financial statements.

IFRSs ADOPTED IN THE YEAR

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

IAS 19 'Defined Benefit Plans' – Employee Contributions – (Amended) – effective 1 February 2015

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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	
		2015	2014
		£000	£000
INFORMATION BY PRODUCT TYPE			
Licence fees		4,612	2,734
Annual support fees		7,383	6,984
SaaS subscription fees		2,076	1,822
Professional services		2,042	1,763
Funded development initiatives		208	126
		16,321	13,429

		REVENUE	
		2015	2014
		£000	£000
INFORMATION BY GEOGRAPHICAL LOCATION			
United Kingdom		2,004	2,141
Rest of Europe		3,592	2,699
USA and Canada		9,429	7,583
Rest of World		1,296	1,006
		16,321	13,429

		NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION	
		2015	2014
		£000	£000
INFORMATION BY GEOGRAPHICAL LOCATION			
United Kingdom		12,331	12,664
USA and Canada		39	16
Rest of World		41	22
		12,411	12,702

Major customers

No customer represents more than 10% of Group revenue in 2015 or 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. (Loss)/Profit from Operations

	2015 £000	2014 £000
(Loss)/Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	137	127
Leased assets	19	-
Amortisation of intangible assets	1,016	937
Research and development costs	1,302	1,026
Operating lease rentals:		
Plant and machinery	3	4
Land and buildings	365	252
Amounts payable to RSM UK Audit LLP and their associates in respect of both audit and non-audit services:		
Audit services:		
Statutory audit of parent and consolidated financial information	16	16
Other services:		
Audit of subsidiaries where such services are provided by RSM UK Audit LLP or its associates	51	43
Audit related assurance services	11	21
Taxation services - Compliance	12	15
Taxation services - Advisory	10	31
	100	126

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. (Loss)/Profit from Operations (continued)

The following table analyses the nature of expenses:

	2015 £000	2014 £000
Staff costs (see note 5)	8,666	7,536
Operating lease rentals	368	256
Software maintenance charges	318	374
Licence costs	593	188
Other expenses	3,608	3,218
Total cost of sales, distribution costs, administrative expenses and other operating expenses	13,553	11,572

Non-recurring costs

The 2015 non-recurring charge of £1.4m arose following the early agreement of the final deferred contingent consideration relating to the 2013 acquisition of Instem Clinical (formerly Logos Technologies) after all profit targets were exceeded.

The 2014 non-recurring charge included a net charge of £0.06m relating to a trade dispute, net of insurance proceeds of £0.09m, and £0.07m of professional fees associated with the Perceptive Instruments acquisition in 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Finance Income

	2015 £000	2014 £000
Bank interest	4	9

4. Finance Costs

	2015 £000	2014 £000
Bank loans and overdrafts	86	65
Unwinding discount	36	46
Net interest charge on pension scheme	140	152
Foreign exchange losses	6	96
Finance lease interest	4	-
	272	359

5. Employees

	2015 Number	2014 Number
Average monthly number (including non-executive directors)		
By role:		
Directors, administration and supervision	40	42
Software design, sales and customer service	118	98
	158	140
	2015 £000	2014 £000
Employment costs:		
Wages and salaries	7,421	6,382
Social security costs	636	590
Other pension costs	609	564
	8,666	7,536

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

6. Share Based Payment

Equity-settled share option plan

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

	2015		2014	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	800,332	1.71	807,839	1.71
Granted	596,684	0.10	-	-
Lapsed	-	-	(7,507)	2.22
Exercised	(10,000)	1.12	-	-
Outstanding at end of the year	1,387,016	1.02	800,332	1.71
Exercisable at 31 December	1,227,191	1.01	640,507	1.86

The options outstanding at 31 December 2015 and 31 December 2014 had exercise prices of £0.10, £0.90, £1.115, £1.75, £1.76 and £2.22 and a weighted average remaining contractual life of 7 years 1 month (2014: 6 years 4 months).

A charge of £0.3m (2014: £0.1m) arose in respect of share based payment.

New options are valued using the Black-Scholes option-pricing model. The fair market value of option awards granted during the year has been estimated using the following key assumptions – note there were no options granted during 2014:

	2015
Average exercise price	0.10
Average market price	2.04
Average vesting period (years)	3
Expected volatility	20.6
Option life (years)	10
Expected life	3
Risk free rate	2.0
Expected dividend yield	-
Expected lapse rate	-
Fair value of options	1.95

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 546,599 shares (2014: 556,599 shares) incorporate a market performance condition based on the Company's share price. Options over 596,684 shares (2014: nil) incorporate a condition based on the performance of either the Group or the individual performance of a subsidiary.

The fair value of options granted in the year is £1.1m (2014: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

7. Directors' Emoluments

		2015 £000	2014 £000
Amounts payable by Instem plc:			
Emoluments*		92	92
Amounts payable by subsidiary companies:			
Emoluments		318	269
Money purchase pension contributions		37	35
Total emoluments		447	396
		2015 Number	2014 Number
Number of directors to whom retirement benefits are accruing under:			
Defined contribution schemes		2	2

* The above emoluments include £24,000 (2014: £24,000) paid to third parties as shown in note 26.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

8. Taxation

	2015 £000	2014 £000
Income taxes recognised in profit or loss		
Current tax:		
UK corporation tax on (loss)/profit of the year	98	-
Foreign tax	411	272
Foreign tax in respect of previous years	(302)	239
Adjustments in respect of previous years	61	(171)
Adjustments in respect of R&D tax credit	(173)	(92)
Total current tax	95	248
Deferred tax:		
Current year credit	(315)	(30)
Adjustments in respect of previous years	179	(103)
Retirement benefit obligation	52	(53)
Effects of domestic tax rate change on opening balances	56	-
Total deferred tax	(28)	(186)
Total income tax expense recognised in the current year	67	62

The income tax expense can be reconciled to the accounting profit as follows:

	2015 £000	2014 £000
(Loss)/profit before tax	(361)	212
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK 20.25% (2014: 21.5%)	(73)	46
Effects of:		
Expenses not deductible for tax purposes	341	33
Fixed asset temporary differences	17	(9)
Differences in overseas tax rates	113	109
Adjustments in respect of prior years	(62)	(35)
Effects of domestic tax rate change on opening balances	56	-
Adjustment in respect of R&D tax credit	(173)	-
Other temporary differences	(152)	-
Tax losses utilised	-	(82)
Total income tax expense recognised in consolidated statement of comprehensive income	67	62

The reduction in the applicable tax rate is due to legislation included in the Finance Act 2013 to reduce the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The tax rate which has been substantively enacted as at 31 December 2015 is 18% in respect of periods from 1 April 2020.

9. Intangible Assets

Group	Goodwill £000	Software £000	Intellectual property £000	Customer relationships £000	Patents £000	Total £000
Cost						
At 1 January 2014	9,387	1,893	2,222	957	21	14,480
Additions from continuing operations	-	369	-	-	-	369
Additions from acquisitions in the prior period	120	-	-	-	-	120
At 31 December 2014	9,507	2,262	2,222	957	21	14,969
Additions from continuing operations	-	612	-	-	-	612
At 31 December 2015	9,507	2,874	2,222	957	21	15,581
Amounts written off						
At 1 January 2014	-	772	604	206	11	1,593
Amortisation expense	-	297	445	191	4	937
At 31 December 2014	-	1,069	1,049	397	15	2,530
Amortisation expense	-	375	444	192	5	1,016
At 31 December 2015	-	1,444	1,493	589	20	3,546
Net book value						
At 31 December 2014	9,507	1,193	1,173	560	6	12,439
At 31 December 2015	9,507	1,430	729	368	1	12,035

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £2.9m (2014: £2.3m) with accumulated amortisation of £1.4m (2014: £1.1m). Software additions for the year include £580,000 relating to internal development (2014: £312,000).

The additions from acquisitions in the prior period in 2014 of £120,000 arose from deferred income in Perceptive Instruments Limited not previously recognised on initial acquisition.

Impairment of goodwill

Goodwill amounting to £5.858m (2014: £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 (2014: £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 (2014: £2.482m), relates to a CGU, being the Logos Holdings Limited (now Instem Clinical Holdings Limited) business acquired on 10 May 2013. Goodwill amounting to £0.669m (2014: £0.669m) relates to a CGU, being the Perceptive Instruments Limited business acquired on 21 November 2013.

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

The key assumptions used, which are based on management's past experience, for the value-in-use calculations are those regarding the discount rates, growth rates and direct costs during the period. The value-in-use calculations are based on the future cash flows from approved forecasts for two years which have been extrapolated to cover a period of five years, and then a terminal value calculated using the Gordon Growth Model, to take account of the software development cycle and the high percentage of recurring revenues from the customer base. At 31 December 2015 a pre-tax discount rate of 8.9% (2014: 11.1%) was used in the value-in-use calculation based on the Group's cost of capital.

Projected cash flows were based on detailed profit and cashflow projections through to 2017 with a 2.5% assumption of growth beyond 2017. The projections were based on reasonable assumptions in respect of business growth rates, payroll and other cost increases and related cashflow impacts. No indication of impairment was found when assumptions of growth of 2.5% beyond 2017 were used.

9. Intangible Assets (continued)

The recoverable amount of the Instem LSS CGU exceeds the carrying amount of this CGU by 236%, for the Instem Scientific CGU by 662%, for Instem Clinical CGU by 378% and, Perceptive Instruments CGU by 428%. The directors consider the discount rate and revenues to be the most sensitive assumptions used in the impairment reviews. An additional increase in the discount rate of 40%, or a reduction in certain revenues of in excess of 3%, would result in the recoverable amount of the Instem LSS CGU being equal to its carrying amount. An additional increase of 79% in the Instem Scientific discount rate, or a reduction in revenues of 22% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 54% in the Instem Clinical discount rate, or a reduction in revenues of 10% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 59% in the Perceptive Instruments discount rate, or a reduction in revenues of 12% 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
Cost at beginning of year	23,132
Additions	263
At end of year	23,395

The company has four wholly-owned subsidiaries and eleven 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

10. Investments (continued)

Company	Activity	Ownership
Instem India Pvt Limited (company number U73100MH2012FTC231951) India	Software development	99.9% by Instem LSS Limited 0.1% by Instem LSS (NA) 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
Instem Japan K.K (company number 0104-01-120355) Japan	Sales, sales support and service	100% by Instem LSS Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

11. Property, Plant and Equipment

Group	Short leasehold property £000	IT hardware & software £000	Total £000
Cost			
At 1 January 2014	14	1,821	1,835
Additions	60	64	124
Exchange adjustment	-	4	4
At 31 December 2014	74	1,889	1,963
Additions	-	266	266
Exchange adjustment	-	2	2
At 31 December 2015	74	2,157	2,231
Depreciation			
At 1 January 2014	8	1,562	1,570
Depreciation expense	17	110	127
Exchange adjustment	1	2	3
At 31 December 2014	26	1,674	1,700
Depreciation expense	17	139	156
Exchange adjustment	(2)	1	(1)
At 31 December 2015	41	1,814	1,855
Net book value			
At 31 December 2014	48	215	263
At 31 December 2015	33	343	376

IT hardware and software includes assets with a net book value of £134,000 (2014: £nil) held under finance lease. The depreciation on these assets during the year was £19,000 (2014: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. Inventories

Group		2015 £000	2014 £000
Raw materials		14	21
Work in progress		808	485
		822	506

		2015 £000	2014 £000
Total gross inventories		822	506

13. Trade and Other Receivables

Group		2015 £000	2014 £000
Trade receivables		2,788	2,705
Amounts recoverable on contracts		1,395	1,257
Prepayments and accrued income		562	470
		4,745	4,432
Company			
Amounts owed by group companies		2,589	2,214
Other receivables		32	17
		2,621	2,231

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		2015 £000	2014 £000
At beginning of year		23	-
Charge for the year		209	23
At end of year		232	23

The average credit period taken on sale is 57 days (2014: 38 days). No interest has been charged on overdue receivables.

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

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

13. Trade and Other Receivables (continued)

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

Group 2014		Debt age					Total
		Current	0-30 days	31-60 days	Over 60 days		
Trade receivables/Amounts recoverable on contracts							
Value (£000)		3,359	470	45	88	3,962	
%		85	12	1	2	100	

Group 2015		Debt age					Total
		Current	0-30 days	31-60 days	Over 60 days		
Trade receivables/Amounts recoverable on contracts							
Value (£000)		3,711	344	17	111	4,183	
%		89	8	-	3	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	2015 £000	2014 £000
Sterling	1,815	1,713
Euro	162	341
US Dollar	2,452	2,162
Renminbi	270	202
Other	46	14
	4,745	4,432

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

14. Cash and Cash Equivalents

Group		2015 £000	2014 £000
Cash at bank		11,181	10,674
Bank overdraft		(8,998)	(8,998)
		2,183	1,676
Company			
Cash at bank		24	97

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

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

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

Group		2015 £000	2014 £000
Sterling		(407)	(367)
Euro		201	153
US Dollar		1,529	1,035
Renminbi		831	842
Other		29	13
		2,183	1,676
Company			
Sterling		24	97

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

15. Trade and Other Payables

		2015 £000	Restated 2014 £000
Group - Current			
Trade payables		487	416
Other taxation and social security costs		186	203
Accruals		1,124	745
		1,797	1,364
Company - Current			
Trade payables		37	16
Amounts owed to group companies		3,773	2,270
Accruals		14	36
		3,824	2,322

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

15. Trade and Other Payables (continued)

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

Group		2015 £000	Restated 2014 £000
	Sterling	1,088	1,013
	US Dollar	677	319
	Renminbi	20	32
	Other	12	-
		1,797	1,364
Company			
	Sterling	3,824	2,322

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

The age profile of the trade and other payables for the Group at the year-end was as follows:

Group 2014	Current	0-30 days	31-60 days	Over 60 days	Total
Trade and other payables (£000)	1,284	48	7	25	1,364
%	94	4	-	2	100

Group 2015	Current	0-30 days	31-60 days	Over 60 days	Total
Trade and other payables (£000)	1,700	56	6	35	1,797
%	95	3	-	2	100

16. Current Taxation

The Group current tax payable of £541,000 (2014: £231,000) represents the amount of income taxes payable in respect of current and prior years.

The Company current tax payable is nil (2014: £nil).

17. Financial Liabilities

Group and Company 2014	Total £000	Less than one year £000	One to two years £000	More than two years £000
Deferred contingent consideration	1,881	1,600	281	-
Loan note	303	303	-	-
	2,184	1,903	281	-

Group 2015	Total £000	Less than one year £000	One to two years £000	More than two years £000
Deferred consideration	688	357	331	-
Finance lease liabilities	145	28	29	88
	833	385	360	88

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

17. Financial Liabilities (continued)

Company	Total	Less than one year	One to two years	More than two years
Deferred consideration	688	357	331	-

Deferred contingent consideration

The deferred contingent consideration relates to the acquisition of Instem Clinical Holdings Limited. The carrying value of the deferred contingent consideration for Instem Clinical Holdings Limited has been discounted by an appropriate rate to take account of the time to maturity. The deferred contingent consideration is now fixed and has no further future performance criteria and there are no further contingencies as at 31 December 2015. Further details are provided in note 18.

Loan note

A loan note amounting to £298,000 was issued during 2014 as part of the deferred contingent consideration payable for the acquisition of Instem Clinical Holdings Limited. The six month note accrued interest at 4% and the total due of £303,000, including interest, was paid in full in January 2015.

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payment	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Not later than one year	36	-	28	-
Later than one year and not later than five years	126	-	117	-
Later than five years	-	-	-	-
	162	-	145	-
Less future finance charges	(17)	-	-	-
Present value of minimum lease payments	145	-	145	-

18. Financial Instruments

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

The tables on the following pages analyse recurring assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

18. Financial Instruments (continued)

2014 Group and Company	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deferred contingent consideration	-	-	(1,881)	(1,881)
	-	-	(1,881)	(1,881)

2015 Group and Company	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deferred consideration	-	(688)	-	(688)
	-	(688)	-	(688)

The Group and Company's policy is to recognise transfers out of Level 3 as at the event or change in circumstances that caused the transfer.

The following table shows a reconciliation from the opening balances as at 1 January 2015 to the closing balances as at 31 December 2015 for Level 3 fair value measurements in respect of both the Group and Company.

	Deferred contingent consideration £000
Balance as at 1 January 2015	1,881
Cash consideration	(950)
Consideration through share issue	(650)
Unwinding discount	34
Change in fair value	1,401
Transfer to Level 2	(1,716)
Balance as at 31 December 2015	-

The Level 3 fair value of deferred contingent consideration in prior years was valued with reference to the agreement on 10 May 2013 to acquire Logos Holdings Limited (now called Instem Clinical). This agreement included deferred contingent consideration which was based on the acquired company performance between acquisition date and 30 April 2017. The fair value therefore included an assessment and forecast of company performance for these periods. During the year the acquired company exceeded expectations.

The change in fair value of £1,401,000 was realised upon the agreement on 1 December 2015 between the Directors and the vendors of Instem Clinical to crystallise the remaining deferred consideration and eliminate all future contingent consideration and agree a fixed settlement of £1.7m. The Group satisfied £1.0m of this settlement through a share issue on 4 December 2015 and the remaining £0.7m deferred consideration is Level 2 and is due to be settled in 2016 and 2017.

18. Financial Instruments (continued)

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.

Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. A 10% decrease in the value of Sterling against the US dollar would have resulted in an increase in the Group's profit before tax by approximately £0.3m.

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 transfers have been utilised to maximise the interest gains whilst minimising foreign exchange risks.

As at 31 December 2015 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 2015 and assuming no other changes occur (such as material changes in currency exchange rates) and that no further interest rate management action is taken, the stable interest rates will not have an impact on net interest income/(expense).

18. Financial Instruments (continued)

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

2015	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Group				
Trade and other receivables	-	-	4,183	4,183
Cash and cash equivalents	-	2,183	-	2,183
Trade and other payables	-	-	(1,611)	(1,611)
Deferred consideration	-	-	(688)	(688)
Finance lease	(145)	-	-	(145)
	(145)	2,183	1,884	3,922

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

2015	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Company				
Trade and other receivables	-	-	2,621	2,621
Cash and cash equivalents	-	24	-	24
Trade and other payables	-	-	(3,824)	(3,824)
Deferred consideration	-	-	(688)	(688)
	-	24	(1,891)	(1,867)

18. Financial Instruments (continued)

Credit risk

Management aims to minimise the risk of credit losses.

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

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

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

The Group generates external revenue from no customers which individually amount to more than 10% of the Group revenue (2014: nil).

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

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

Liquidity risk

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

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

The Group regularly monitors its available headroom under its borrowing facilities. At 31 December 2015, its £2.0m committed bank facility was undrawn (2014: £1.6m available).

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. Deferred Tax

Group	2015 £000	2014 £000
Deferred tax assets		
Amounts due to be recovered within 12 months	-	-
Amounts due to be recovered after 12 months	663	574
Total deferred tax	663	574

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

	2015 £000	2014 £000
At beginning of the year	574	388
Net credit to income for the year	263	83
Net credit to equity	61	-
Adjustments in respect of prior years	(179)	103
Effect of domestic tax rate change on opening balances	(56)	-
At end of the year	663	574

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 2014	(686)	360	701	13	388
Credit/(charge) to profit or loss for the year	58	76	(53)	2	83
(Charge)/credit to equity for the year	-	(124)	124	-	-
Adjustments in respect of prior years	(73)	172	4	-	103
At 31 December 2014	(701)	484	776	15	574
Credit/(charge) to profit or loss for the year	162	-	(52)	153	263
Credit to equity for the year	-	-	61	-	61
Adjustments in respect of prior years	-	(179)	-	-	(179)
Effects of domestic tax rate change on opening balances	71	(48)	(78)	(1)	(56)
At 31 December 2015	(468)	257	707	167	663

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

Unrecognised tax losses not included at 31 December 2015 were £4,066,000 (2014: £4,808,000) due to uncertainty over the timing of the recoverability of these losses.

20. Retirement Benefit Obligations

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

Defined contribution pension schemes

Group Personal Pension Plan - the scheme was created on 31 December 2008. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5%. The employer also contributes to the Scheme for former members of Instem LSS Pension Scheme at rates varying from 5% to 18%. Employer contributions for the year ended 31 December 2015 were £0.46m (2014: £0.47m).

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 2015 were £0.03m (2014: £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 2015 were £0.08m (2014: £0.07m).

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 2015 were £0.02m (2014: £0.02m).

Perceptive Instruments Limited - The Group makes contributions to personal pension arrangements of certain employees. During the year ended 31 December 2015 employer contributions to these arrangements totalled £0.02m. (2014:£0.02m)

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 in deficit and no contributions payable under a minimum funding requirement are considered potentially refundable or utilisable as a reduction of future contributions. IFRIC interpretation 14 is deemed to be not applicable to the Group.

The Scheme is managed by a Board of Trustees appointed in part by the Group and part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the Scheme, administering benefit payments and investing the Scheme assets. The Trustees delegate some of these functions to their professional advisors 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 bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed a deficit will emerge in the Scheme.

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

The latest full actuarial valuation was carried out at 5 April 2014 and was updated to 31 December 2015 by a qualified independent actuary.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Retirement Benefit Obligations (continued)

The following schedule of contributions was prepared by the Trustees of the Instem LSS Pension Scheme ('the Scheme') after obtaining the advice of the Scheme Actuary appointed by the Trustees and was intended to clear the deficit in the Scheme at the time it was agreed in June 2015:

Period ended	Monthly payment (payable in each month except the final month in each period) £'000	Balancing payment due before period end £'000
31 March 2016	15	262
31 March 2017	25	187
31 March 2018	25	203
31 March 2019	25	220
31 March 2020	25	237
31 March 2021	25	255
31 March 2022	25	273
31 March 2023	25	293
30 November 2023	25	239

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Retirement Benefit Obligations (continued)

	2015 %	2014 %
Discount rate	3.8	3.8
Inflation (RPI)	3.2	3.1
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	2.9	2.8
Rate of increase in pensions in deferment	3.2	3.1
Life Expectancy assumption (number of years from the age of 65)	Years	Years
Male currently aged 45	24.7	24.7
Female currently aged 45	25.9	25.8
Male currently aged 65	23.4	23.4
Female currently aged 65	24.4	24.3
ANALYSIS OF AMOUNT CHARGED TO OPERATING EXPENSES	2015 £000	2014 £000
Current service cost	-	-
Past service cost	-	-
Total operating charge	-	-
ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	2015 £000	2014 £000
Interest on pension scheme assets	289	327
Interest on pension scheme liabilities	(429)	(479)
Net finance charge	(140)	(152)
ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	2015 £000	2014 £000
Losses on pension scheme assets in excess of interest	136	7
Experience losses arising on scheme liabilities	-	138
Gains from changes to demographic assumptions	-	(163)
Losses from changes to financial assumptions	203	639
Actuarial loss recognised in other comprehensive expense	339	621

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Retirement Benefit Obligations (continued)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	2015 £000	2014 £000
Opening defined benefit obligation	11,405	10,529
Interest cost	429	479
Benefits paid	(255)	(217)
Experience loss on defined benefit obligation	-	138
Changes to demographic assumptions	-	(163)
Changes to financial assumptions	203	639
Closing defined benefit obligation	11,782	11,405

CHANGES IN THE FAIR VALUE OF PLAN ASSETS	2015 £000	2014 £000
Opening plan assets	7,524	7,023
Expected return	289	327
Return on plan assets less interest	(136)	(7)
Contributions by employer	427	398
Benefits paid	(255)	(217)
Closing plan assets	7,849	7,524

The actual return on plan assets was a positive return of £153,000 (2014: £320,000).

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2015 £000	2014 £000
Present value of funded obligations	(11,782)	(11,405)
Fair value of plan assets	7,849	7,524
Deficit	(3,933)	(3,881)
Related deferred tax asset	707	776
Net pension liability	(3,226)	(3,105)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY	2015 £000	2014 £000
Opening net defined benefit liability	3,881	3,506
Net interest expense	140	152
Remeasurements	339	621
Contributions by employer	(427)	(398)
Closing net defined benefit liability	3,933	3,881

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Retirement Benefit Obligations (continued)

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE		Cumulative 2015 £000	Cumulative 2014 £000
Actual return less expected return on pension scheme assets		110	246
Experience gains and losses arising on scheme liabilities		(1,811)	(1,811)
Changes in assumptions underlying the present value of the scheme liabilities		(2,442)	(2,239)
Cumulative actuarial loss recognised in other comprehensive expense		(4,143)	(3,804)

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

	2015		2014	
	£000	%	£000	%
Equities	5,664	72	5,376	72
Property	227	3	185	2
Bonds	810	10	680	9
Corporate Bonds	672	9	682	9
Cash	378	5	516	7
Other	98	1	85	1
	7,849	100	7,524	100

The five year history of experience adjustments is as follows:

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligation	(11,782)	(11,405)	(10,529)	(9,200)	(6,946)
Fair value of plan assets	7,849	7,524	7,023	6,004	5,330
Deficit	(3,933)	(3,881)	(3,506)	(3,196)	(1,616)
Experience adjustments on plan liabilities	-	(138)	-	(763)	-
Experience adjustments on plan assets	(136)	(7)	612	172	(480)

The Group expects to contribute £0.4m to its defined benefit plan in the next financial year (2014: £0.4m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. 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	(1,030)
Minus 0.50% pa	1,175
INFLATION	
Plus 0.50% pa	1,074
Minus 0.50% pa	(971)
LIFE EXPECTANCY	
Plus 1 year	343
Minus 1 year	(349)

21. Share Capital

Allotted, called up and fully paid	2015 £000	2014 £000
At 1 January		
12,212,260 ordinary shares of 10p each (2014: 11,764,658)	1,221	1,176
831,514 (2014: 447,602) ordinary shares of 10p each, issued during the year	83	45
At 31 December	1,304	1,221

821,514 (2014: 447,602) shares were issued in the year as part settlement of the deferred contingent consideration payable relating to the acquisition of Instem Clinical Holdings Limited. In addition 10,000 shares were issued during the year in respect of the exercise of share options.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

22. Earnings Per Share

Basic and Fully Diluted

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

	2015			2014		
	Loss after tax (£000)	Weighted average number of shares (000's)	Earnings per share (pence)	Profit after tax (£000)	Weighted average number of shares (000's)	Earnings per share (pence)
Earnings per share-Basic	(428)	12,398	(3.5)	150	12,063	1.2
Potentially dilutive shares	-	-*	-	-	155	-
Earnings per share-Diluted	(428)	12,398	(3.5)	150	12,218	1.2

* Dilutive share options have been excluded from the calculation as in accordance with IAS 33, 'Earning per share', as they are only included where the impact is dilutive.

Adjusted

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange on the revaluation of inter-group 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.

	2015			2014		
	Adjusted profit after tax (£000)	Weighted average number of shares (000's)	Adjusted earnings per share (pence)	Adjusted profit after tax (£000)	Weighted average number of shares (000's)	Adjusted earnings per share (pence)
Earnings per share-Basic	1,644	12,398	13.3	1,009	12,063	8.4
Potentially dilutive shares	-	337	-	-	155	-
Earnings per share-Diluted	1,644	12,735	12.9	1,009	12,218	8.3

Reconciliation of adjusted profit after tax:		2015 £000	2014 £000
Reported (loss)/profit after tax		(428)	150
Non-recurring costs		1,426	123
Amortisation of acquired intangibles		640	640
Foreign exchange differences on revaluation of inter-group balances		6	96
		1,644	1,009

23. Capital and Reserves

Share capital

The share capital account represents the par value for all shares issued.

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.

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.

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.

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, merger reserve, shares to be issued, translation reserve, retained earnings and net debt as noted below.

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

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

24. Capital Commitments

There were no capital commitments at the end of the financial year (2014: £nil).

25. Operating Leases Payable

	2015 £000	2014 £000
Minimum lease payments under operating leases recognised as an expense in the year	368	256
At the reporting date, the Group has future aggregate minimum lease payments, which fall due as follows:		
Land and buildings		
Within one year	395	394
In the second to fifth year inclusive	748	1,000
After five years	358	498
Plant and machinery		
Within one year	2	3
In the second to fifth year inclusive	3	5
	1,506	1,900

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

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

No operating leases are held by the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

26. Related Party Transactions

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year the Company traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £0.6m (2014: £0.5m). The net intercompany balances due from the Company at the year-end totalled £1.2m (2014: due from: £0.02m).

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

Key management compensation:	2015 £000	2014 £000
Fees for services provided as Non-Executive Directors		
Salaries and short term benefits	68	68
Post employment retirement benefits	-	-
Employers' national insurance & social security costs	7	7
Share based payment charge	-	-
	75	75
Executive Directors		
Salaries and short term benefits	318	269
Post employment retirement benefits	37	35
Employers' national insurance & social security costs	21	20
Share based payment charge	71	12
	447	336
Other key management		
Salaries and short term employee benefits	508	461
Post employment retirement benefits	26	26
Employers' national insurance & social security costs	45	44
Share based payment charge	57	8
	636	539

The Company paid £0.05m (2014: £0.05m) to Instem Ventures Limited, a company owned by A Gare, a shareholder. The balance outstanding at the end of the year was £0.005m (2014: £nil).

In addition the Company paid £0.02m (2014: £0.02m) to Noble Adamson Limited, a company owned by M McGoun, an independent non-executive director and a shareholder. The balance outstanding at the end of the year was £0.002m (2014: £0.002m).

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

27. Critical Accounting Estimates and Judgements

Certain year end 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 of these assets and liabilities within the next financial year. The estimates and assumptions are made on the basis of information and conditions that existed at the time of the valuation.

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

27. Critical Accounting Estimates and Judgments (continued)

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 lives, which have been estimated by management to be up to 8 years.

Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. The amount recognised in the consolidated financial statements is derived from the Director's best estimation and judgement incorporating forecasts and all available information. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

28. Contingent Liabilities

Instem plc has provided a guarantee to its subsidiaries which have taken advantage of the exemption from audit. Under this guarantee, the company has a contingent liability of £9.0m (2014: £9.0m).

29. Post Balance Sheet Event

Following the end of the financial year, in February 2016 the Company announced it had raised £5.0 million (before expenses) by way of a placing of 2,500,000 New Ordinary Shares with new and existing investors. The Board intends to use the proceeds of this placing, along with existing cash resources, to continue the Group's acquisition strategy and to provide additional working capital.

NOTES

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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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