Instem plc
Annual Report
2016

Information Solutions For Life

Instem is a leading supplier of IT applications and technology-enabled outsourced services to the early development global life sciences market. Instem solutions are used by customers worldwide, meeting the rapidly expanding needs of life science and healthcare organisations for data-driven decision making that help them bring their life enhancing products to market faster.

Instem is creating a more connected ecosystem in the life sciences by consolidating a fragmented vendor marketplace. Their established portfolio of software solutions increase client productivity by automating processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem supports over 500 clients through offices in the United States, United Kingdom, France, India, China and Japan.

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highlights

Highlights

Financial Highlights

- Revenues increased 12% to £18.3m (2015: £16.3m)
  - Recurring revenues increased 21% to £12.1m (2015: £10.0m)
  - Software as a Service (SaaS) revenues increased 38% to £2.9m (2015: £2.1m)
- EBITDA* of £1.3m (2015: £2.5m)
- Adjusted** profit before tax of £0.7m (2015: £1.7m)
- Reported profit before tax of £0.02m (2015: loss before tax of £0.4m)
- Basic earnings per share of 6.9p (2015: loss of 3.5p)
- Adjusted** fully diluted earnings per share of 11.2p (2015: 12.9p)
- Net cash balance as at 31 December 2016 of £4.2m (2015: £2.2m)

Operational Highlights

- Oversubscribed placing to raise £5.0m (gross) in February 2016 to fund acquisitive growth:
  - Acquisition in May 2016 of Samarind Limited, a Regulatory Information Management solutions provider, for a maximum consideration of £2.5m
  - Acquisition in Sept 2016 of Notocord, a software provider in pre-clinical studies, for a maximum consideration of €4.2m (£3.6m)
- Disappointing performance from Instem Clinical is being addressed through decisive management actions following strategic reappraisal
- Strong trading across all other business areas:
  - Secured the majority of SEND ("Standard for Exchange of Non-clinical Data") related technology and outsourced services contracts placed in the market
  - Successfully established KnowledgeScan Target Safety Assessment service, delivering 14 assignments, with repeat business from every client
  - High levels of Provantis® contract renewals, including a long-term relationship with Charles River Laboratories, by far the largest pre-clinical CRO (contract research organisation)
  - Record revenue and profit contribution from Perceptive Instruments, our genetic toxicology product suite
- Investment in the Sales and Operational teams and infrastructure to fund on-going growth

"With the exception of the disappointing performance of Instem Clinical, business in 2016 was strong, helped by a buoyant pre-clinical market, the target for the majority of our products and services. Revenues grew both organically and through the acquisitions of Samarind and Notocord. Recurring revenue and SaaS revenue growth of 21% and 38%, respectively, were particularly pleasing.

A more conservative revenue outlook for Instem Clinical in 2017 is expected to be more than offset by the growing momentum of our KnowledgeScan big data analytics and insights service, introduced in 2016, and the full year contributions from the Samarind and Notocord acquisitions.

The FDA mandate of SEND in December 2016 fuelled market demand for our software and technology enabled out-sourced services and we anticipate strong revenue growth in line with expectations, however we will continue to invest in additional staff and facilities in this area during 2017 to ensure we maximise market share and retain our substantial market leadership as the FDA regulations drive further market growth. While near term profit will be significantly reduced by this and other investment across the Group, we are putting in place a platform for further growth in the longer term."

P J Reason
Chief Executive

* Earnings before interest, tax, depreciation, amortisation and non-recurring income/(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.

INVESTMENT

statement

"We have continued to invest in our business to both increase the depth of management expertise and enhance the various software product offerings across the Group."

Chairman's Statement

The period under review was undoubtedly a frustrating year for the Group, due wholly to the disappointing performance of Instem Clinical. Importantly, we successfully achieved a significant equity fundraise at the beginning of the year and subsequently completed two strategic acquisitions. We also managed strong revenue growth across the majority of our businesses and significantly strengthened our senior management team. Nevertheless, the poor performance of our Clinical business ultimately resulted in trading for the Group, disappointingly, coming in below our expectations for the year.

Notwithstanding the above, we have continued to invest in our business to both increase the depth of management expertise and enhance the various software product offerings across the Group. In particular, the appointment of MaryBeth Thompson as Chief Operating Officer, who brings more than 18 years of relevant experience to the role, is strategically important to the Group as it will enable the rest of the senior management team to increase their focus on delivering further organic growth and continuing our strategic acquisition programme.

I am pleased to report that the recent acquisitions of Samarind and Notocord are performing in line with expectations and are on track to be fully integrated in 2017 and we are now seeking to consolidate the full cross and upselling opportunities for both businesses as part of the larger group.

Importantly, our Preclinical and Regulatory Solutions businesses maintained their pre-eminent industry positions by continuing to win the majority of business placed globally in their markets. In particular, our submit™, Standard for the Exchange of Non-clinical Data ("SEND") technology suite has already demonstrated market dominance, winning the majority of contracts placed during the period. The evolution of our SEND value proposition continued during the year with the transition from a pure software licensing model to a combined offering with the addition of technology-enabled out-sourced services assignments. We secured over 50 SEND-related contracts in 2016. In order to capitalise on the opportunities to provide services, as well as software, we are investing in additional staff and facilities, further details of which are included in the Chief Executive's Statement.

Furthermore, we introduced a new bio-informatics platform, KnowledgeScan, which achieved significant market recognition in its first application area of Target Safety Assessment ("TSA"). In the second half of the year we delivered several TSA projects with high levels of customer repeat business.

During the year, senior management time and resources were diverted into addressing the challenges with the Instem Clinical business and this is continuing. Whilst some challenges still remain, we have reappraised this business and believe that with some additional investment under the newly appointed Instem Clinical management team it can become a long-term cornerstone business for the Group.

The strategic opportunities for 2017 and beyond remain encouraging; particularly as the period will see full-year contributions from the recent Notocord and Samarind acquisitions. The period will continue to require us to make further investment to support the continued strong performances from our business units, in particular the opportunity in SEND, although this is expected to pay back relatively quickly.

As Chairman, it has always been my passion to invest in world leading global products. Today the Company has, for our markets, an unrivalled portfolio of such products.

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

CONTINUED GROWTH

"Taking further market share in the now FDA mandated SEND market has been a particular management focus, whilst also concentrating on improving our substantial recurring revenues, with a 21% increase year-on-year."

report

Strategic Report

Chief Executive's Statement

Overview

The past year was an extremely busy time for Instem, with the successful oversubscribed placing at the beginning of the year and the completion of two acquisitions, which are integrating well.

With the exception of Instem Clinical, trading was robust throughout the year, helped by a buoyant preclinical market. Unfortunately, in what turned out to be a very challenging early phase clinical market, certain significant contracts at Instem Clinical were delayed and the outperformance across the rest of the Group's operations was insufficient to compensate for this shortfall. We consequently downgraded expectations for the full year towards the end of the period.

Highlights for the period included further market penetration for existing product suites and services and a continued high percentage of client retention. This was supported by cross-selling of products across our extended client base, particularly for our genetic toxicology solutions in major accounts and for all solutions in the Asia-Pacific regions. Through investment in product development, we have introduced new and chargeable solutions and expanded our service offering, leveraging our leading technology solutions. Taking further market share in the now FDA mandated SEND market has been a particular management focus, while also concentrating on improving our substantial recurring revenues, with a 21% increase year-on-year. The Group has continued to expand its customer base and has in excess of 500 customers (2015: in excess of 450 customers) for continuing products. Further information in respect of the Group performance and key performance indicators is disclosed in the Financial Review and Directors' Report on pages 11 to 12 and 18 to 19 respectively.

A significant positive milestone achieved during the period was the successful launch of "Instem University", an online learning platform for the Group's global customer base. The Instem University is a sophisticated, easy to use, intuitive web-based solution that is available on demand whenever a client needs it. Instem's entire approach for the initiative is based upon the single objective of making it easier for clients to use all of Instem's software so that end users can better perform their jobs. The introduction of Instem University and its dedicated Academies provides a highly cost effective and scalable solution enabling many clients to quickly and concurrently deploy major Instem product upgrades. Having clients on the latest product versions maximises the potential for add-on sales of new modules and reduces internal support costs.

In order to support the growth of the Group, primarily related to SEND, KnowledgeScan and Instem University, we are intending to invest c.£1.0m in 2017, of which approximately £0.4m relates to third party cost of sales. This investment will include the funding of larger premises in Pune, India and further expansion of our software development, market facing and out-sourced services staff.

Instem Preclinical - Provantis, Notocord-HEM, Comet, AMES & Cyto Study Manager

Provantis, the Group's primary preclinical software suite, experienced high renewal rates during the period with new clients added in-line with management expectations.

The largest of these renewals was with Charles River Laboratories ('CRL'), post their acquisition of WIL Research ('WIL'), both significant Instem clients. The new agreement, which was announced in August 2016, included the continuation of all current licences, an extended support and maintenance contract running through to 31st December 2022 and the integration of two sizable Provantis implementation projects. The revised agreement resulted in moderately higher revenue in 2016 than under the previous separate agreements with WIL and CRL, and we believe there are further opportunities to continue to grow this key relationship over the coming years.

One of the key Preclinical milestones for the year was the successful launch of the "Provantis 10 Software suite", a fully integrated Windows-based system for organisations engaged in non-clinical evaluation studies, which went live in the second half of 2016. Initial feedback has been universally positive and we intend to further roll-out Provantis 10 across our customers during the coming year.

As a consequence of the Perceptive Instruments ("Perceptive") acquisition, Instem is one of the leading specialist video imaging system providers in the preclinical market and enjoyed a particularly strong year with revenue up approximately 46% over the prior year. Cyto Study Manager and AMES Study Manager enjoyed particularly strong trading periods. Cyto Study Manager, which integrates data acquisition, auditing, reporting and study management for several genetic toxicology assays into a single system, benefitted from adding support for Chromosome Aberration assays. Genotoxicity studies are mandatory for all pharmaceuticals, medical devices, agrochemicals and industrial chemicals with the AMES assay the most widely used regulatory test. Instem's AMES Study Manager can be found in laboratories across the globe and has rapidly established itself with an excellent reputation for increasing productivity while improving compliance with GLP regulations and reporting requirements.

Notocord, acquired by Instem in September 2016, continues to integrate well into the Group. Notocord is headquartered in Paris, France. The company provides software solutions for telemetry data acquisition and analysis and is a highly respected name in the life sciences software industry. Notocord has sold more than 1,500 licences around the world to major pharmaceutical companies, contract research laboratories, hospitals and academic research centres. Customers include Sanofi, Merck & Co and Pfizer. Whilst it is still too early to report on potential cross selling and upselling opportunities across the Group, there have already been high levels of interaction with both customers and potential new sales channel partners. This, coupled with a well-attended user meeting in Paris, provides us with confidence that the acquisition will perform at least in-line with management expectations in the current year.

We are pleased to report that the order expanding the utilisation of Provantis at the US National Institute of Environmental Health Sciences ("NIEHS"), delayed from 2016, has recently been received and the appropriate accounting treatment for revenue and profit recognition purposes is currently being assessed. The delayed AMES and Cyto Study Manager order has also been received.

Instem Clinical – ALPHADAS™

The early stage clinical market was undoubtedly the most challenging aspect of the year for Instem with little new business being procured during the period as much of the existing pipeline of new business was delayed.

Whilst the deterioration in trading levels was initially identified in the first half of the year and flagged in the Interim Results, it was felt far more acutely during the second half. Following a Board review of the significant under performance of the Clinical business, the sale agreement with the former Logos Technologies shareholders was revised, resulting in a £700k reduction in the deferred consideration for the Logos acquisition. The two major Logos shareholders, who were the two senior managers for Instem Clinical, also left the company. Instem Clinical now has new management in place working to a revised, more conservative business plan.

Whilst the business underperformed in the period, having undertaken a strategic reappraisal of Instem Clinical, we still strongly believe that the early stage clinical market represents a significant and attractive opportunity for the Group, including the potential for the cross selling of other products and services. However, we also recognise that it will take a period of time for the new management team to fully address certain issues and further staff investment of circa £0.25 million is being made into strengthening the technical and development capability in order to further enhance the ALPHADAS offering. Encouragingly, whilst still early in the year, we are seeing revenue growth compared to the prior period.

Instem Scientific

Instem Scientific delivered a record 14 KnowledgeScan Target Safety Assessment assignments during the period and is on target to deliver a further six for mid-sized pharmaceutical companies in the first few months of 2017. An important key performance indicator during the period was that all customers in 2016 have already placed repeat KnowledgeScan orders, which highlights the high value proposition this business offers.

Whilst activity has been at record levels, the business has also been focussing on improving the workflow of discrete assignments to reduce delivery timelines, add extra capacity and expand operating margins. There is a growing pipeline of new business opportunities for 2017.

Samarind Ltd

Samarind, acquired in May 2016, provides Regulatory Information Management ("RIM") software solutions across the life sciences sector, through its product suite "Samarind RMS". Its solutions significantly enhance the quality of regulatory information and help to achieve and maintain compliance for pharmaceutical, biotech and medical device products.

Samarind RMS delivers the security, flexibility and ease of use that regulatory affairs teams need to achieve their regulatory and commercial requirements. Deployed on-site or accessed on-line, Samarind's solutions provide a smarter way to manage the acquisition and maintenance of product licences.

Instem can report that whilst it has been a slower year for revenue growth, the retention rate of existing clients has been high and we have released a new dashboard and analytics module to improve the user interface and strengthen customer relationships across the product suite. There has also been a strong focus on the new Identification and Description of Medicinal Product ("IDMP") Standards, making sure Instem's strategy is aligned with the expected regulatory dates and working with clients to plan for their IDMP implementations. Instem's leadership in the xEVMPD standard that will be replaced remains a useful market differentiator as organisations consider their IDMP needs.

Electronic Regulatory Submissions (SEND) – submit™

The FDA's ("Food and Drug Administration") SEND ("Standard for Exchange of Nonclinical Data") initiative was ratified in December 2014 and mandated for an initial subset of study submissions in December 2016. Consequently, its implementation is now a market imperative for the entire drug development industry. A more comprehensive range of study submissions will be mandated by the FDA in December 2017, which has already started to influence purchases of Instem technology and services.

Instem has continued to secure the majority of the SEND-related product and service business placed globally during 2016, winning over 50 contracts for its software solutions, of which 30 were for technology-enabled out-sourced services. Customers range across all sizes of pharmaceutical and contract research organisations with the largest contract award from a top 10 global pharmaceutical company, which purchased Instem's entire submit™ solution suite.

In the second half of 2016, Instem agreed an exclusive global distribution agreement for a third party product, SEND Explorer, which provides sophisticated visualisation and analytics for SEND data sets and nicely complements Instem's other SEND solutions.

Technology enabled out-sourced service volume increased during H2 2016 with 30 contracts secured during the year from companies that had not already equipped themselves with staff and technology to create and review SEND data sets internally. This trend is expected to continue and increase, so we are intending to recruit approximately 15 further specialists in this area, based predominantly in our Pune, India office, complementing the highly experienced staff already in place in the UK and North America.

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, in its Pharma R&D Annual Review 2017, that the global drug pipeline had increased by 8.4% in the past year with an additional 1,154 drugs added to the pipeline, the second highest rise over the last 10 years following the record rise in the prior year (1,418 were added in 2015-16).

As of January 2017, the total number of companies with one or more drugs in the regulatory stages of development has now risen to 4,003, an increase of 8.6% on the previous year. This is lower than the 2015-16 number but is still a "strikingly large growth rate".

The volume of activity in pharma R&D is at an all-time high with all the important parameters for Instem increasing strongly.

The greatest growth occurred at the preclinical stage with an extra 632 drugs joining the early drug phase, an increase of 9.2% on the previous year. While there were increases in the numbers of drugs at every clinical phase, Phase I saw the greatest rise this year with the drug count increasing by 11.2%.

Summary and Outlook

With the exception of the disappointing performance of Instem Clinical, business in 2016 was strong, helped by a buoyant pre-clinical market, the target for the majority of our products and services. Revenues grew both organically and through the acquisitions of Samarind and Notocord. Recurring revenue and SaaS revenue growth of 21% and 38%, respectively, were particularly pleasing.

A more conservative revenue outlook for Instem Clinical in 2017 is expected to be more than offset by the growing momentum of our KnowledgeScan big data analytics and insights service, introduced in 2016, and the full year contributions from the Samarind and Notocord acquisitions.

The FDA mandate of SEND in December 2016 fuelled market demand for our software and technology enabled out-sourced services and we anticipate strong revenue growth in line with expectations, however we will continue to invest in additional staff and facilities in this area during 2017 to ensure we maximise market share and retain our substantial market leadership as the FDA regulations drive further market growth. While near term profit will be significantly reduced by this and other investment across the Group, we are putting in place a platform for further growth in the longer term.

P J Reason
Chief Executive
12 April 2017

OUTLOOK

"We are putting in place a platform for further growth in the longer term."

review

Financial Review

Instem's revenue model consists of perpetual licence income with annual support contracts, professional services fees, SaaS subscriptions with annual support contracts and funded development initiatives. Total revenue for the year to 31 December 2016 increased by 12% to £18.3m (2015: £16.3m). This increase includes revenues from our new acquisitions of £1.1m combined with organic growth in respect of the majority of our products, and the benefit of average exchange rates, which increase the underlying revenues. These are offset by costs of our overseas subsidiaries.

A key performance indicator of the Group is recurring revenue. During the year, the total recurring revenue, from support & maintenance contracts, SaaS based subscriptions and certain professional services increased 21% during the year to £12.1m (2015: £10.0m), representing 66% of total revenue (2015: 61%). This includes recurring revenue generated from our 2016 acquisitions of £0.8m.

Earnings before interest, tax, depreciation and amortisation and non-recurring items for the year was £1.3m (2015: £2.5m). This decrease reflected a disappointing performance from Instem Clinical. The Group continued to invest in our sales and operations teams and infrastructure to capitalise on growth opportunities going forward.

Adjusted profit before tax (i.e. adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance costs, non-recurring items and amortisation of intangibles on acquisitions) was £0.7m (2015: £1.7m). The unadjusted profit before tax for the year was £0.02m (2015: loss of £0.4m).

The non-recurring items in the year included the costs of professional fees in respect of the acquisitions of Samarind and Notocord together with the restructuring costs in respect of Instem Clinical. These costs aggregated to £0.4m. The non-recurring items also included income of £1.0m in respect of the amendment and change in the deferred consideration and deferred contingent consideration in respect of Clinical (£0.7m) and Samarind (£0.3m), respectively.

Development costs incurred during the year were £2.6m (2015: £1.9m), of which £0.8m (2015: £0.6m) was capitalised. The Group claimed and received research and development tax credits during the year of £0.4m (2015: £0.2m).

Basic and fully diluted earnings per share calculated on an adjusted basis were 11.5p and 11.2p respectively (2015: 13.3p basic and 12.9p adjusted).

The Group continued to generate net cash from operating activities. The Group had net cash reserves of £4.2m at 31 December 2016, compared with £2.2m as at 31 December 2015. The increase is largely due to the cash proceeds from the share issue during the year which generated £4.8m (net of fees) less the initial consideration for both Samarind and Notocord of £3.3m.

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 IAS19 that amounted to £1.0m (net of deferred tax) (2015: £0.3m) due to a reduction in bond yields following the EU Referendum. This is a non-cash charge and was recognised in Other Comprehensive Income/(Expense). The overall deficit at the year-end stood at £4.7m (2015: £3.9m), represented by the fair value of assets of £9.7m (2015: £7.9m) and the present value of funded obligations of £14.4m (2015: £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. The next triennial valuation will be calculated as at 5 April 2017.

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.

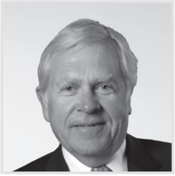
The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme.

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 2016, its £2.0m committed bank facility was undrawn (2015: £2.0m undrawn).

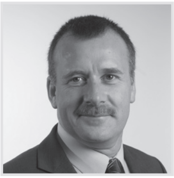
N J Goldsmith
Chief Financial Officer



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

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

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

Attendance at Board and Committee Meetings

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

Audit Committee

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

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

The Audit Committee:

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

	No. of meetings attended / No. of meetings invited to attend			
	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive directors				
P J Reason	19/19	2/2	2/2	1/1
N J Goldsmith	19/19	2/2	0/0	1/1
Non-Executive directors				
D Gare	16/19	2/2	2/2	1/1
D M Sherwin	19/19	2/2	2/2	1/1
M F McGoun	17/19	2/2	2/2	1/1

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 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.

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 positive cash reserves, as well as a committed working capital facility of £2.0m which at 31 December 2016 was undrawn. The Group has, therefore, sufficient liquid assets to cover its day-to-day needs, in addition to its operating 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

M F McGoun
Independent Non-Executive Director

DIRECTORS' REPORT

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2016.

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 2016 the Group had in excess of 500 customers (2015: in excess of 450 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 total recurring revenue increased 21% during the year to £12.1m (2015: £10.0m), representing 66% of total revenue (2015: 61%). This includes recurring revenue generated from the two 2016 corporate acquisitions of £0.8m.

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 pages 20 and 21.

Directors and their Interests

The interests of the directors who held office at 31 December 2016 and up to the date of this report (2015: as at 26 April 2016) were as follows:

	2016 No. of Shares	2015 No. of Shares
D Gare	1,418,427	1,418,427
D M Sherwin	1,380,066	1,380,066
P J Reason	665,287	665,287
M F McGoun	36,786	36,786
N J Goldsmith	-	-

Directors' interests in share options are detailed in the Remuneration report on pages 20 and 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 2016 or 2015.

Financial Instruments

The Group's objectives and policies on financial instruments are set out in note 21 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 18 May 2017 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 as auditor will be put to the members at the forthcoming Annual General Meeting.

On behalf of the Board

P J Reason
Director
12 April 2017

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 the following page. Details of share-based payment are shown in note 7 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 Group'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 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 £0.02m were payable to executive directors in respect of the year ended 31 December 2016 (2015: £0.03m).

Pensions

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

Benefits

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

Service Contracts

The Executive directors have contracts with 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 letter of appointment that had an initial three year term commencing October 2010. These 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.

The emoluments paid to directors in the year ended 31 December 2016 were as follows:

	Salary £000	Bonus £000	Benefits £000	Pension £000	**2016 Total £000**	2015 Total £000
Executives						
P J Reason	194	15	5	27	**241**	221
N J Goldsmith	103	7	11	13	**134**	134
Non-executives						
D Gare	52	-	-	-	**52**	44
D M Sherwin	30	-	-	-	**30**	24
M F McGoun	30	-	-	-	**30**	24
Total	**409**	**22**	**16**	**40**	**487**	**447**

Directors' and Employees' Share Options

	Exercise price (£)	Issue date	Held at 31 Dec 2015	Granted during year	Exercised during year	Lapsed during year	Held at 31 Dec 2016
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	-	-	(37,500)	112,500
							323,356
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	-	-	(25,000)	75,000
							150,000
Employees Ordinary shares	1.750	13/10/2010	304,568	-	(51,542)	-	253,026
	2.220	03/03/2011	93,844	-	-	-	93,844
	2.220	17/10/2011	14,667	-	-	-	14,667
	1.115	23/10/2012	30,000	-	(8,500)	-	21,500
	0.900	14/01/2013	61,397	-	(11,597)	-	49,800
	0.100	11/02/2015	81,168	-	(40,584)	-	40,584
	0.100	29/07/2015	215,000	-	(3,750)	(61,250)	150,000
	0.100	21/11/2015	50,516	-	(25,258)	-	25,258
	0.100	27/05/2016	-	34,558	-	-	34,558
	0.100	19/09/2016	-	70,000	-	(17,500)	52,500
							735,737
Total			**1,387,016**	**104,558**	**(141,231)**	**(141,250)**	**1,209,093**

Approved by the Board and signed on its behalf by:

M F McGoun
Independent Non-Executive Director

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

Opinion on financial statements

We have audited the group and parent company financial statements ("the financial statements") on pages 24 to 70. 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.

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 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 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 and, based on the work undertaken in the course of our audit, the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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.

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.

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.

Graham Bond FCA (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP
Statutory Auditor
14th Floor
Chapel Street
Liverpool
L3 9AG

12 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

CONTINUING OPERATIONS	Note	**Year ended 31 December 2016 £000**	Year ended 31 December 2015 £000
REVENUE	1	**18,319**	16,321
Operating expenses	2	**(16,843)**	(13,553)
Share based payment		**(223)**	(263)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ('EBITDA')		**1,253**	2,505
Depreciation		**(156)**	(156)
Amortisation of intangibles arising on acquisition		**(667)**	(640)
Amortisation of internally generated intangibles		**(380)**	(376)
PROFIT BEFORE NON-RECURRING INCOME/(COSTS)	2	**50**	1,333
Non-recurring income/(costs)	3	**619**	(1,426)
PROFIT /(LOSS) AFTER NON-RECURRING INCOME/(COSTS) AND BEFORE FINANCE COSTS		**669**	(93)
Finance income	4	**-**	4
Finance costs	5	**(646)**	(272)
PROFIT/(LOSS) BEFORE TAXATION		**23**	(361)
Taxation	9	**1,035**	(67)
PROFIT/(LOSS) FOR THE YEAR		**1,058**	(428)
OTHER COMPREHENSIVE EXPENSE			
Items that will not be reclassified to profit and loss account			
Actuarial loss on retirement benefit obligations		**(1,192)**	(339)
Deferred tax on actuarial loss		**215**	61
		(977)	(278)
Items that may be reclassified to profit and loss account			
Exchange differences on translating foreign operations		**844**	(24)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(133)**	(302)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**925**	(730)
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**1,058**	(428)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**925**	(730)
Earnings per share from continuing operations attributable to owners of the parent company:			
Basic	25	**6.9p**	(3.5p)
Diluted	25	**6.8p**	(3.5p)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

		2016		2015	
	Note	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	11	**17,607**		12,035	
Property, plant and equipment	13	**374**		376	
Deferred tax assets	22	**947**		663	
TOTAL NON-CURRENT ASSETS			**18,928**		13,074
CURRENT ASSETS					
Inventories	14	**916**		822	
Trade and other receivables	15	**6,899**		4,745	
Financial asset	16	**10**		-	
Cash and cash equivalents	17	**4,189**		2,183	
TOTAL CURRENT ASSETS			**12,014**		7,750
TOTAL ASSETS			**30,942**		20,824
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	**2,670**		1,797	
Deferred income		**9,092**		7,107	
Current tax payable	19	**429**		541	
Financial liabilities	20	**979**		385	
TOTAL CURRENT LIABILITIES			**13,170**		9,830
NON-CURRENT LIABILITIES					
Financial liabilities	20	**242**		448	
Retirement benefit obligations	23	**4,746**		3,933	
TOTAL NON-CURRENT LIABILITIES			**4,988**		4,381
TOTAL LIABILITIES			**18,158**		14,211
EQUITY					
Share capital	24	**1,577**		1,304	
Share premium	26	**12,462**		7,903	
Merger reserve	26	**1,432**		1,241	
Shares to be issued	26	**864**		641	
Translation reserve	26	**1,048**		204	
Retained earnings	26	**(4,599)**		(4,680)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**12,784**		6,613
TOTAL EQUITY AND LIABILITIES			**30,942**		20,824

The financial statements on pages 24 to 70 were approved by the board of directors and authorised for issue on 12 April 2017 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Note	2016		2015	
ASSETS		**£000**	**£000**	£000	£000
NON-CURRENT ASSETS					
Investments	12	**28,426**		23,395	
TOTAL NON-CURRENT ASSETS			**28,426**		23,395
CURRENT ASSETS					
Trade and other receivables	15	**2,301**		2,621	
Financial asset	16	**10**		-	
Cash and cash equivalents	17	**2,221**		24	
TOTAL CURRENT ASSETS			**4,532**		2,645
TOTAL ASSETS			**32,958**		26,040
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	**4,332**		3,824	
Financial liabilities	20	**950**		357	
TOTAL CURRENT LIABILITIES			**5,282**		4,181
NON-CURRENT LIABILITIES					
Financial liabilities	20	**158**		331	
TOTAL NON-CURRENT LIABILITIES			**158**		331
TOTAL LIABILITIES			**5,440**		4,512
EQUITY					
Share capital	24	**1,577**		1,304	
Share premium	26	**12,462**		7,903	
Merger reserve	26	**13,066**		12,875	
Shares to be issued	26	**864**		641	
Retained earnings	26	**(451)**		(1,195)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**27,518**		21,528
TOTAL EQUITY AND LIABILITIES			**32,958**		26,040

The Company's profit for the year and total comprehensive income for the year was £744,000 (2015:loss £1,350,000).

The financial statements on pages 24 to 70 were approved by the board of directors and authorised for issue on 12 April 2017 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 2016

		2016		2015	
	Note	**£000**	**£000**	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before taxation		**23**		(361)	
Adjustments for:					
Depreciation		**156**		156	
Loss on disposal of property, plant and equipment		**2**		-	
Amortisation of intangibles		**1,047**		1,016	
Share based payment		**223**		263	
Retirement benefit obligations		**(518)**		(427)	
Finance income		**-**		(4)	
Finance costs		**646**		272	
(Decrease)/increase in deferred contingent consideration		**(1,017)**		1,361	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**562**		2,276
Movements in working capital:					
Decrease/(increase) in inventories		**12**		(313)	
Increase in trade and other receivables		**(1,737)**		(71)	
Increase in trade, other payables and deferred income		**1,810**	**85**	493	109
CASH GENERATED FROM OPERATIONS			**647**		2,385
Finance costs		**(379)**		(86)	
Income taxes		**(141)**	**(520)**	205	119
NET CASH GENERATED FROM OPERATING ACTIVITIES			**127**		2,504
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		**-**		4	
Purchase of intangible assets		**(890)**		(612)	
Purchase of property, plant and equipment		**(113)**		(113)	
Payment of deferred contingent consideration		**-**		(950)	
Repayment of capital of finance leases		**(33)**		(8)	
Purchase of subsidiary undertakings (net of cash acquired)		**(2,347)**		-	
NET CASH USED IN INVESTING ACTIVITIES			**(3,383)**		(1,679)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**4,823**		12	
Loan notes repaid		**-**		(303)	
Finance lease interest		**(8)**		(4)	
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES			**4,815**		(295)
NET INCREASE IN CASH AND CASH EQUIVALENTS			**1,559**		530
Cash and cash equivalents at start of year			**2,183**		1,676
Effects of exchange rate changes on the balance of cash held in foreign currencies			**447**		(23)
CASH AND CASH EQUIVALENTS AT END OF YEAR	17		**4,189**		2,183

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015	
	Note	£000	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before taxation		744		(1,350)	
Adjustments for:					
Finance income		(18)		(5)	
Finance cost		129		41	
(Decrease)/increase in deferred contingent consideration		(1,017)		1,361	
CASH FLOWS (USED IN)/FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			(162)		47
Movements in working capital:					
Decrease/(increase) in trade and other receivables			320		(390)
Increase in trade and other payables			496		1,506
NET CASH GENERATED FROM OPERATING ACTIVITIES			654		1,163
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		9		5	
Purchase of subsidiary undertakings		(3,289)		-	
Payment of deferred contingent consideration		-		(950)	
NET CASH USED IN INVESTING ACTIVITIES			(3,280)		(945)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		4,823		12	
Loan notes repaid		-		(303)	
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES			4,823		(291)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			2,197		(73)
Cash and cash equivalents at start of year			24		97
CASH AND CASH EQUIVALENTS AT END OF YEAR	17		2,221		24

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 2015	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 at 31 December 2015	1,304	7,903	1,241	641	204	(4,680)	6,613
Profit for the year	-	-	-	-	-	1,058	1,058
Other comprehensive income/ (expense) for the year	-	-	-	-	844	(977)	(133)
Total comprehensive income	-	-	-	-	844	81	925
Shares issued	273	4,559	191	-	-	-	5,023
Share based payment	-	-	-	223	-	-	223
Balance as at 31 December 2016	**1,577**	**12,462**	**1,432**	**864**	**1,048**	**(4,599)**	**12,784**

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 2015	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
Profit for the year	-	-	-	-	744	744
Shares issued	273	4,559	191	-	-	5,023
Share based payment	-	-	-	223	-	223
Balance as at 31 December 2016	**1,577**	**12,462**	**13,066**	**864**	**(451)**	**27,518**

ACCOUNTING POLICIES

GENERAL INFORMATION

The principal activity and nature of operations 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 limited 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 financial statements have been prepared on the historical cost basis.

The Company has taken advantage of the audit exemption for three of its non-trading subsidiaries Instem Life Science Systems Limited (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 profit for the year of the parent company is £0.74m (2015: loss of £1.35m).

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 2016 and 31 December 2015.

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 net current assets (excluding deferred income) of £7.9m at 31 December 2016 (2015: £5.0m). 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 positive cash reserves, as well as a committed working capital facility of £2.0m referred to above which, at 31 December 2016 was undrawn.

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 is 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 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 items (EBITDA) is profit/(loss) arising from the Group's normal trading activities stated before depreciation, amortisation, non-recurring items, 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)
Samarind Limited	Sterling (GBP)
Notocord Systems S.A.	Euro (EUR)
Notocord Inc.	US Dollars (USD)

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 (including exchange gains on the translation of intra-group funding balances).

FINANCE COSTS

Net finance costs include interest payable, exchange losses (including 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.

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)	Euro (EUR)
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	-
Average rate for year ended 31 December 2016	**1.3553**	**10.5210**	**9.0102**	**91.0666**	**147.577**	**1.2242**
Closing rate at 31 December 2016	**1.2340**	**9.5654**	**8.5978**	**83.4892**	**144.503**	**1.1731**

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

Deferred tax is recognised on income or expenses from subsidiaries that will be assessed or allow for tax in future periods except where the Group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

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 between five and ten 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

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

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

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

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

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

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

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

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

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

INVENTORY

Inventory is stated at the lower of cost and net realisable value. 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.

ACCOUNTING POLICIES

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 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.

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

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

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

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

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.

Fair value of assets acquired and calculation of contingent consideration (see note 10)
The amounts presented in the statement of financial position in respect of the fair values of assets acquired are estimated by the Group's management based on prior experience and information available at the time of the acquisition. Key assumptions and judgements are required to both identify and measure the identifiable assets acquired. It is the opinion of management, that in respect of both acquisitions, the identifiable intangible assets acquired relate to Intellectual Property and Customer Relationships. The fair value of such assets represents the estimated future earnings discounted to their net present value. The assessment of these future earnings includes estimates and judgements such as the use of an appropriate royalty rate in respect of the calculation and modelling of the intellectual

property asset, the assessment of potential future earnings and the useful economic life of each identifiable asset acquired.

The directors have reviewed the sensitivity of the royalty rate assumption in the Samarind valuation of acquired intangible assets. A 10% decrease in the assumed royalty rate would result in approximately a £0.14m increase in goodwill, £0.17m less acquired intangible assets and £0.03m less deferred tax liability arising on acquisition. The subsequent impact of amortisation charge for the year ended 31 December 2016 would be a reduced charge of £0.02m.

The directors have reviewed the sensitivity of the royalty rate assumption in the Notocord valuation of acquired intangible assets. A 10% decrease in the assumed royalty rate would result in approximately a £0.17m increase in goodwill, £0.21m less acquired intangible assets and £0.04m less deferred tax liability arising on acquisition. The subsequent impact of amortisation charge for the year ended 31 December 2016 would be a reduced charge of £0.01m.

The contingent consideration provided in the financial statements is measured initially at its acquisition-date fair value. The consideration in respect of both Samarind and Notocord include deferred contingent consideration, which is dependent on financial performance of the acquired businesses. The estimation of fair values includes management's best estimate to the outcome of such performance using detailed forecasts of the acquired business.

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 management'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.

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 2016. The Group and Company have chosen not 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.

IFRS 15 'Revenue from Contracts with Customers' effective - 1 January 2018

IFRS 9 'Financial Instruments' effective - 1 January 2018

IFRS 16 'Leases' effective - 1 January 2019

IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' (Amended) effective - 1 January 2017

IAS 7 'Disclosure initiative' (Amended) effective - 1 January 2017

IFRS 2 'Classification and Measurement of Share Based Payment' (Amended) effective - 1 January 2018

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' effective - 1 January 2018

The directors are 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 standards above 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 1 'Presentation of Financial Statements' (Amended) effective - 1 January 2016

IFRS 10 'Consolidated Financial Statements' (Amended) effective - 1 January 2016

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

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

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.

	2016 £000	2015 £000
REVENUE BY PRODUCT TYPE		
Licence fees	**4,162**	4,612
Annual support fees	**8,890**	7,383
SaaS subscription fees	**2,853**	2,076
Professional services	**2,414**	2,042
Funded development initiatives	**-**	208
	18,319	16,321

	2016 £000	2015 £000
REVENUE BY GEOGRAPHICAL LOCATION		
UK	**3,329**	2,004
Rest of Europe	**3,232**	3,592
USA and Canada	**9,829**	9,429
Rest of World	**1,929**	1,296
	18,319	16,321

	2016 £000	2015 £000
NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION BY GEOGRAPHICAL LOCATION		
UK	**17,750**	12,331
USA and Canada	**165**	39
Rest of World	**66**	41
	17,981	12,411

Major customers

There were no customers which represented more than 10% of the Group revenue in 2016 (2015: nil).

2. Profit/(Loss) before Non-Recurring Income/(Costs)

	2016 £000	2015 £000
Profit/(loss) from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	**126**	137
Leased assets	**30**	19
Loss on disposal of property, plant and equipment	**2**	-
Amortisation of intangible assets	**1,047**	1,016
Research and development costs	**1,840**	1,302
Operating lease rentals:		
Plant and machinery	**39**	3
Land and buildings	**481**	365
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	**17**	16
Other services:		
Audit of subsidiaries where such services are provided by RSM UK Audit LLP or its associates	**64**	51
Audit related assurance services	**16**	11
Taxation services - Compliance	**18**	12
Taxation services - Advisory	**4**	10
Due diligence	**47**	-
	166	100

The following table analyses the nature of expenses:

	2016 £000	2015 £000
Staff costs (see note 6)	**10,706**	8,666
Operating lease rentals	**520**	368
Software maintenance charges	**444**	318
Licence costs	**599**	593
Other expenses	**4,574**	3,608
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**16,843**	13,553

3. Non-Recurring Items

	2016 £000	2015 £000
Professional fees in respect of acquisitions	(249)	(25)
Amendment to consideration payable in respect of Instem Clinical	690	(1,401)
Restructuring costs in respect of Instem Clinical	(149)	-
Amendment to contingent consideration post acquisition in respect of Samarind	327	-
	619	(1,426)

The professional fees relate to the acquisition of Samarind Limited on 27 May 2016 and Notocord Systems S.A. on 2 September 2016 (see note 10).

During the year, the Group reached agreement with the previous owners of Instem Clinical resulting in the release of the Group from its obligations to pay the final consideration payments.

The contingent consideration in respect of Samarind Limited was estimated at its fair value at the date of acquisition. This was re-measured at the reporting date and the estimation of the contingent consideration has reduced.

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).

4. Finance Income

	2016 £000	2015 £000
Bank interest	-	4

5. Finance Costs

	2016 £000	2015 £000
Bank loans and overdrafts	32	86
Unwinding discount on deferred consideration	120	36
Net interest charge on pension scheme	139	140
Foreign exchange losses	347	6
Finance lease interest	8	4
	646	272

6. Employees

	2016 Number	2015 Number
Average monthly number (including non-executive directors)		
By role:		
Directors, administration and supervision	**42**	40
Software design, sales and customer service	**154**	118
	196	158
	2016 £000	2015 £000
Employment costs:		
Wages and salaries	**9,045**	7,421
Social security costs	**890**	636
Other pension costs	**771**	609
	10,706	8,666

In addition to the above employment costs, the Group had non-recurring employment costs of £0.15m (2015:£nil) as disclosed in note 3.

The Company has three employees during the year and in the prior year. These employees are non-executive directors of the Company and their remuneration is disclosed in note 8.

7. Share Based Payment

Equity-settled share option plan

Under the approved and unapproved share 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.

	2016		2015	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	**1,387,016**	**1.02**	800,332	1.71
Granted	**104,558**	**0.10**	596,684	0.10
Lapsed	**(141,250)**	**0.10**	-	-
Exercised	**(141,231)**	**0.83**	(10,000)	1.12
Outstanding at end of the year	**1,209,093**	**1.07**	1,387,016	1.02
Exercisable at end of year	**784,535**	**1.59**	1,227,191	1.01

The options outstanding at 31 December 2016 and 31 December 2015 had exercise prices of £0.10, £0.90, £1.115, £1.75, £1.76, £2.215 and £2.22 and a weighted average remaining contractual life of 6 years 1 month (2015: 7 years 1 month).

A charge of £0.2m (2015: £0.3m) 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:

	2016
Average exercise price	0.10
Average market price	2.67
Average vesting period (years)	3
Expected volatility	19.0
Option life (years)	10
Expected life	3
Risk free rate	2%
Expected dividend yield	-
Expected lapse rate	-
Fair value of options	2.40

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 474,960 shares (2015: 556,599 shares) incorporate a market performance condition based on the Company's share price. Options over 490,400 shares (2015: 596,684) 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 £0.3m (2015: £1.1m).

During the year, the average share price in respect of share options exercised is £2.55 (2015: £2.06).

8. Directors' Emoluments

	2016 £000	2015 £000
Amounts payable by Instem plc:		
Emoluments*	**112**	92
Amounts payable by subsidiary companies:		
Emoluments	**335**	318
Defined contribution pension contributions	**40**	37
Total emoluments	**487**	447

	2016 Number	2015 Number
Number of directors to whom retirement benefits are accruing under:		
Defined contribution schemes	**2**	2

* The above emoluments include £30,000 (2015: £24,000) payable to third parties as shown in note 29.

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

9. Taxation

Income taxes recognised in profit or loss:	2016 £000	2015 £000
Current tax:		
UK corporation tax on profit/(loss) of the year	244	98
Amounts in respect of previously unrecognised losses	(141)	–
Foreign tax	400	411
Foreign tax in respect of previous years	(45)	(302)
Adjustments in respect of previous years	(312)	61
Adjustments in respect of R&D tax credit	(350)	(173)
Total current tax	(204)	95
Deferred tax:		
Current year credit	(421)	(315)
Amounts in respect of previously unrecognised losses	(459)	-
Adjustment in respect of previous years	(73)	179
Retirement benefit obligation	76	52
Effects of domestic tax rate change on opening balances	46	56
Total deferred tax	(831)	(28)
Total income tax (credit)/expense recognised in the current year	(1,035)	67

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

	2016 £000	2015 £000
Profit/(loss) before tax	23	(361)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK 20% (2015: 20.25%)	5	(73)
Effects of:		
(Income)/expenses not (allowable)/deductible for tax purposes	(23)	341
Fixed asset temporary differences	164	17
Differences in overseas tax rates	85	113
Adjustments in respect of prior years	(430)	(62)
Foreign tax suffered in excess of double tax relief	110	-
Effects of domestic tax rate change on opening balances	46	56
Adjustment in respect of R&D tax credit	(350)	(173)
Other temporary differences	(97)	(152)
Tax losses utilised	(141)	-
Tax losses carried forward not previously recognised	(526)	-
Overseas tax losses not carried forward	122	-
Total income tax (income)/expense recognised in consolidated statement of comprehensive income	(1,035)	67

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 2016 is 17% in respect of periods from 1 April 2020 following legislation in the Finance Act 2015.

10. Acquisition of Subsidiaries

Company	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration £000
Samarind Limited	Provider of Regulatory Information Management software and services to Life Science sector	27 May 2016	100	2,324

Samarind Limited was acquired to continue the expansion and development of the Group's capabilities in the Global Life Sciences sector.

Consideration	£000
Initial cash consideration (including £13,000 stamp duty)	1,313
Initial share consideration	200
Deferred consideration (27 May 2017) – To be settled in cash or shares	450
Deferred contingent consideration (27 May 2017) – To be settled in cash or shares	350
Deferred consideration (27 May 2018) – To be settled in cash or shares	200
	2,513
Discounting of estimated future cashflows	(189)
Fair value of consideration	2,324

The contingent consideration is based on certain performance related conditions in respect of the first twelve months. The deferred contingent consideration in the table above is based on the forecast estimate that the performance related conditions will be fully met and the full consideration will be payable. The contingent consideration was re-measured at the reporting date as disclosed in note 3.

Acquisition related costs amounting to £0.07m have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Non-recurring income/(costs)' line item in the consolidated statement of comprehensive income.

Fair value of assets acquired and liabilities recognised at the date of acquisition	Fair Value £000
Non-Current Assets	
Intellectual property	1,047
Customer relationships	921
Property, plant and equipment	16
Current Assets	
Trade and other receivables	104
Cash and cash equivalents	697
Current tax	119
Current Liabilities	
Trade and other payables	(416)
Deferred income	(404)
Non-Current Liabilities	
Deferred tax on acquisition	(354)
Fair value of identifiable net assets acquired	1,730

10. Acquisition of Subsidaries (continued)

Goodwill arising on acquisition	£000
Consideration transferred	2,324
Less: fair value of identifiable net assets acquired	(1,730)
Goodwill arising on acquisition	594

The impact of the acquisition on the Group's assets and liabilities is set out above. The fair value of the assets and liabilities may be adjusted for circumstances that are revealed within 12 months of the date of acquisition. The value of goodwill arose on the acquisition of Samarind Limited because the premium paid by the Group reflected the expected benefit of synergies, revenue growth and future market development. Samarind Limited was acquired to expand and enhance the Group's product and service offering within the Global Life Sciences operating segment. These benefits have not been recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The fair value of the identifiable net assets acquired as reported in the interim statement as at 30 June 2016 were provisional. Following the interim report, the Group has thoroughly reviewed the fair value of identifiable net assets and the values are reflected in the table on the previous page.

Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of £0.05m attributable to the additional business generated by Samarind Limited. Revenue for the year includes £0.53m in respect of Samarind Limited.

Had this business combination been effected at 1 January 2016, the revenue of Samarind from continuing operations would have been £0.92m, and the profit for the year from continuing operations would have approximated break even. The directors consider these numbers to represent an approximate measure of the performance of Samarind on an annualised basis and to provide a reference point for comparison in future years.

Subsidiary acquired

Company	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration £000
Notocord Systems S.A. (including Notocord Inc.)	Provider of software into preclinical Safety Pharmacology sector	2 September 2016	100	2,482

Notocord Systems S.A. and Notocord Inc. were acquired to continue the expansion and development of the Group's capabilities in the preclinical Safety Pharmacology sector, which is adjacent to Instem's core Toxicology/Pathology sector.

Consideration	£000
Initial cash consideration - €2.3m (including €0.3m consideration in respect of acquired cash balances)	1,976
Deferred contingent consideration (30 March 2017)	533
	2,509
Discounting of estimated future cashflows	(27)
Fair value of consideration	2,482

The contingent consideration is based on certain performance related conditions in respect of the years ending 31 December 2016 and 31 December 2017. The maximum deferred contingent consideration which would be payable if all performance conditions were met would be £1.7m (€2.0m).

Acquisition related costs amounting to £0.18m have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Non-recurring income/(costs)' line item in the consolidated statement of comprehensive income.

10. Acquisition of Subsidaries (continued)

Fair value of assets acquired and liabilities recognised at the date of acquisition	Fair Value £000
Non-Current Assets	
Intellectual property	1,258
Customer relationships	996
Property, plant and equipment	14
Current Assets	
Trade and other receivables	148
Cash and cash equivalents	245
Current tax	(355)
Current Liabilities	
Trade and other payables	(101)
Deferred income	(232)
Non-Current Liabilities	
Deferred tax on acquisition	(405)
Fair value of identifiable net assets acquired	1,568

Goodwill arising on acquisition	£000
Consideration transferred	2,482
Less: fair value of identifiable net assets acquired	(1,568)
Goodwill arising on acquisition	914

The impact of the acquisition on the Group's assets and liabilities is set out above. The fair value of the assets and liabilities may be adjusted for circumstances that are revealed within 12 months of the date of acquisition. The value of goodwill arose on the acquisition of Notocord Systems S.A. because the premium paid by the Group reflects the expected benefit of synergies, revenue growth and future market development. Notocord Systems S.A. was acquired to expand and enhance the Group's product and service offering within the Safety Pharmacology sector. These benefits have not been recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Impact of acquisition on the results of the Group

Included in the profit before tax for the year is a profit of £0.15m attributable to the additional business generated by Notocord Systems S.A. and Notocord Inc. Revenue for the year includes £0.53m in respect of Notocord Systems S.A. and Notocord Inc.

Had this business combination been effected at 1 January 2016, the revenue of Notocord from continuing operations would have been in the region of £1.8m, and the profit for the year from continuing operations would have been in the region of £0.4m. The directors consider these numbers to represent an approximate measure of the performance of Notocord Systems S.A. and Notocord Inc. on an annualised basis and to provide a reference point for comparison in future years.

11. Intangible Assets

Group	Goodwill £000	Software £000	Intellectual property £000	Customer relationships £000	Patents £000	Total £000
Cost						
At 1 January 2015	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
Additions from continuing operations	-	890	-	-	-	890
Additions from acquisitions	1,508	-	2,305	1,917	-	5,730
Exchange adjustment	-	10	-	-	-	10
At 31 December 2016	**11,015**	**3,774**	**4,527**	**2,874**	**21**	**22,211**
Amounts written off						
At 1 January 2015	-	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
Amortisation expense	-	380	442	224	1	1,047
Exchange adjustment	-	11	-	-	-	11
At 31 December 2016	**-**	**1,835**	**1,935**	**813**	**21**	**4,604**
Net book value						
At 31 December 2015	9,507	1,430	729	368	1	12,035
At 31 December 2016	**11,015**	**1,939**	**2,592**	**2,061**	**-**	**17,607**

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £3.0m (2015: £2.3m) with accumulated amortisation of £1.2m (2015: £0.9m). Software additions for the year include £0.8m relating to internal development (2015: £0.6m).

Impairment of goodwill

Goodwill amounting to £5.9m (2015: £5.9m) 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 £0.5m (2015: £0.5m), relates to a CGU, being the Instem Scientific Limited business acquired on 3 March 2011. Goodwill amounting to £2.5m (2015: £2.5m), relates to a CGU, being the Instem Clinical Holdings Limited business acquired on 10 May 2013. Goodwill amounting to £0.7m (2015: £0.7m) relates to a CGU, being the Perceptive Instruments Limited business acquired on 21 November 2013.

During the year, the Group acquired goodwill amounting to £0.6m and £0.9m in respect of the acquisition of Samarind and Notocord respectively (see note 10).

During the year, 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 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 2016, a pre-tax discount rate of 9.1% (2015: 8.9%) was used in the value-in-use calculation based on the Group’s cost of capital.

11. Intangible Assets (continued)

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 identified.

The recoverable amount of the Instem LSS CGU exceeds the carrying amount of this CGU by 335%, for the Instem Scientific CGU by 848%, for Instem Clinical CGU by 249%, Perceptive Instruments CGU by 898%, Samarind CGU by 443% and Notocord CGU by 351%. 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 24%, 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 68% in the Instem Scientific 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 15% in the Instem Clinical discount rate, or a reduction in revenues of 9% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 30% in the Perceptive Instruments discount rate, or a reduction in revenues of 17% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 30% in the Samarind discount rate, or a reduction in revenues by 30% would result in the recoverable amount of the CGU being equal to its carrying value. An additional increase of 24% in the Notocord discount rate, or a reduction in revenues by 24% would result in the recoverable amount of the CGU being equal to its carrying value.

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

12. Investments

Company	£000
Cost at beginning of year	23,395
Additions	5,031
At end of year	**28,426**

During the year, the Company acquired the investment in Samarind Limited and Notocord Systems S.A. At the end of the year the company has six wholly-owned subsidiaries and twelve wholly-owned sub-subsidiaries, details of which are as follows:

Company	Registered Address	Activity	Ownership
Instem Life Science Systems Limited (company number 04339129) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Holding Company	100% by Instem plc
Instem LSS Limited (company number 03548215) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	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	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Sales, sales support and administrative support	100% by Instem LSS Limited
Instem LSS (Asia) Limited (company number 1371107) Hong Kong	Suite 1106-8 11/F Tai Yau Building No 181 Johnston Road Wanchai	Holding Company	100% by Instem LSS Limited
Instem Information Systems (Shanghai) Limited (company number 310115400257075) Shanghai, PRC	Room 205, Building 16 88 Da'erwen Road Zhanjiang High Tech Park Pudong District 201203	Sales, sales support and service	100% by Instem LSS (Asia) Limited

12. Investments (continued)

Company	Registered Address	Activity	Ownership
Instem Scientific Limited (company number 03861669) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	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	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Dormant	100% by Instem Scientific Limited
Instem Scientific Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem Scientific Limited
Instem India Pvt Limited (company number U73100MH2012FTC231951) India	302, Third Floor Lalani Quantum Bavdhan (Budruk) Pune 411021	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	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Holding of intellectual property rights and investment in group companies	100% by Instem plc
Instem Clinical Limited (company number 06959053) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Instem Clinical Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	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	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Dormant	100% by Instem Clinical Holdings Limited
Perceptive Instruments Limited (company number 02498351) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	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

12. Investments (continued)

Company	Registered Address	Activity	Ownership
Instem Japan K.K (company number 0104-01-120355) Japan	Shinagawa Intercity Tower A Level 28 2-15-1 Konan Minato-ku Tokyo 108-6028	Sales, sales support and service	100% by Instem LSS Limited
Samarind Limited (company number 02105894) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Provider of regulatory information management software	100% by Instem plc
Notocord Systems S.A. (company number 350927349) France	113 Chemin de Ronde Croissy-sur-Seine Paris 78290	Software development, sales support and administrative support	100% by Instem plc
Notocord Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	Sales, sales support and administrative support	100% by Notocord Systems S.A.

13. Property, Plant and Equipment

Group	Short leasehold property £000	IT hardware & software £000	Total £000
Cost			
At 1 January 2015	74	1,889	1,963
Additions	-	266	266
Exchange adjustment	-	2	2
At 31 December 2015	74	2,157	2,231
Additions	3	110	113
Acquisitions	-	103	103
Disposals	(1)	(1,384)	(1,385)
Exchange adjustment	3	71	74
At 31 December 2016	**79**	**1,057**	**1,136**
Depreciation			
At 1 January 2015	26	1,674	1,700
Depreciation expense	17	139	156
Exchange adjustment	(2)	1	(1)
At 31 December 2015	41	1,814	1,855
Depreciation expense	14	142	156
Acquisitions	-	73	73
Disposals	(1)	(1,382)	(1,383)
Exchange adjustment	3	58	61
At 31 December 2016	**57**	**705**	**762**
Net book value			
At 31 December 2015	33	343	376
At 31 December 2016	**22**	**352**	**374**

IT hardware and software includes assets with a net book value of £0.10m (2015: £0.13m) held under finance lease. The depreciation on these assets during the year was £0.03m (2015: £0.02m).

14. Inventories

Group		2016 £000	2015 £000
Raw materials		27	14
Work in progress		889	808
		916	822

		2016 £000	2015 £000
Total gross inventories		916	822

15. Trade and Other Receivables

Group		2016 £000	2015 £000
Trade receivables		5,104	2,788
Amounts recoverable on contracts		894	1,395
Prepayments and accrued income		901	562
		6,899	4,745
Company			
Amounts owed by group companies		2,217	2,589
Other receivables		84	32
		2,301	2,621

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		2016 £000	2015 £000
At beginning of year		232	23
Increase in provision for impairment		9	209
Reversal of provision for impairment		(147)	-
At end of year		94	232

The average credit period taken on sale is 68 days (2015: 57 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.

15. Trade and Other Receivables (continued)

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

		Debt age				
Group 2015		Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts						
Value (£000)		3,711	344	17	111	4,183
%		89	8	-	3	100

		Debt age				
Group 2016		**Current**	**0-30 days**	**31-60 days**	**Over 60 days**	**Total**
Trade receivables/Amounts recoverable on contracts						
Value (£000)		**4,434**	**565**	**501**	**498**	**5,998**
%		**74**	**10**	**8**	**8**	**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		**2016 £000**	2015 £000
Sterling		**2,511**	1,815
Euro		**784**	162
US Dollar		**3,056**	2,452
Renminbi		**488**	270
Other		**60**	46
		6,899	4,745

16. Financial Asset

Group and Company		**2016 £000**	2015 £000
Forward foreign exchange contract		**10**	-

At the reporting date the Group and Company had one short term forward foreign exchange contract to purchase Euros at a guaranteed rate. The above represents the fair value of the contract at 31 December 2016. There were no contracts in place as at 31 December 2015. The credit has been recognised in the consolidated statement of comprehensive income and reflected in foreign exchange losses within finance costs.

17. Cash and Cash Equivalents

Group		2016 £000	2015 £000
Cash at bank		**13,187**	11,181
Bank overdraft		**(8,998)**	(8,998)
		4,189	2,183
Company			
Cash at bank		**2,221**	24

The Group's committed overdraft facility has a net limit of £2.0m and a gross limit of £9.0m. 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		2016 £000	2015 £000
Sterling		**(1,138)**	(407)
Euro		**1,687**	201
US Dollar		**2,329**	1,529
Renminbi		**1,243**	831
Other		**68**	29
		4,189	2,183
Company			
Sterling		**1,165**	24
Euro		**1,056**	-
		2,221	24

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

18. Trade and Other Payables

		2016 £000	2015 £000
Group - Current			
Trade payables		632	487
Other taxation and social security costs		276	186
Accruals		1,762	1,124
		2,670	1,797
Company - Current			
Trade payables		78	37
Amounts owed to group companies		4,125	3,773
Accruals		129	14
		4,332	3,824

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

Group		2016 £000	2015 £000
Sterling		1,595	1,088
Euro		272	-
US Dollar		725	677
Renminbi		31	20
Other		47	12
		2,670	1,797
Company			
Sterling		4,332	3,824

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

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

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

Group 2016		Current	0-30 days	31-60 days	Over 60 days	Total
Trade and other payables (£000)		2,634	24	-	12	2,670
%		99	1	-	-	100

19. Current Taxation

The Group current tax payable of £0.43m (2015: £0.54m) represents the amount of income taxes payable in respect of current and prior years.

The Company current tax payable is £nil (2015: £nil).

20. Financial Liabilities

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

Company 2015	Total £000	Less than one year £000	One to two years £000	More than two years £000
Deferred consideration	688	357	331	-

Group 2016	**Total £000**	**Less than one year £000**	**One to two years £000**	**More than two years £000**
Deferred contingent consideration	**1,108**	**950**	**158**	**-**
Finance lease liabilities	**113**	**29**	**32**	**52**
	1,221	**979**	**190**	**52**

Company 2016	**Total £000**	**Less than one year £000**	**One to two years £000**	**More than two years £000**
Deferred contingent consideration	**1,108**	**950**	**158**	**-**

Deferred contingent consideration

The deferred contingent consideration above includes £0.58m (2015: £nil) in respect of the acquisition of Samarind Limited, £0.53m (2015: £nil) in respect of the acquisition of Notocord Systems S.A. and £nil (2015: £0.69m) in respect of Instem Clinical Holdings Limited.

During the year, the Group reached agreement with the previous owners of Instem Clinical Holdings Limited resulting in the release of the Group from its obligation to pay the final consideration payments.

The estimation of deferred consideration in respect of the acquisition of Samarind Limited and Notocord Systems S.A. is contingent on performance criteria relating to 2017.

The carrying value of all deferred consideration has been discounted by an appropriate rate to take account of the time to maturity. Further details are provided in note 21.

20. Financial Liabilities (continued)

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payment	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Not later than one year	**36**	36	**29**	28
Later than one year and not later than five years	**90**	126	**84**	117
	126	162	**113**	145
Less future finance charges	**(13)**	(17)	**-**	-
Present value of minimum lease payments	**113**	145	**113**	145

21. 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 deferred consideration) and “Fair value through profit and loss” (other financial liabilities which reflect deferred contingent consideration, and a forward contract shown as a financial asset) 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.

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

2016 **Group and Company**	**Level 1** **£000**	**Level 2** **£000**	**Level 3** **£000**	**Total** **£000**
Financial asset	**-**	**10**	**-**	**10**
Deferred contingent consideration	**-**	**-**	**(1,108)**	**(1,108)**
	-	**10**	**(1,108)**	**(1,098)**

The valuation of the financial asset has been made with reference to the guaranteed rate within the forward contract and an appropriate forward rate as at 31 December 2016.

21. Financial Instruments (continued)

The following table shows a reconciliation from the opening balances as at 1 January 2016 to the closing balances as at 31 December 2016 for Level 3 fair value measurements in respect of both the Group and Company.

		Deferred contingent consideration £000
Balance as at 1 January 2016		-
Acquisition of Samarind Limited		**811**
Acquisition of Notocord Systems S.A.		**506**
Unwinding discount*		**108**
Change in fair value**		**(327)**
Adjustment in respect of foreign exchange*		**10**
Balance as at 31 December 2016		**1,108**

* Recognised in consolidated statement of comprehensive income and reflected in finance costs
** Recognised in consolidated statement of comprehensive income and reflected in non-recurring income/(costs)

The assumptions in respect of the fair value measurement of the deferred contingent consideration is disclosed in note 10.

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 average value of Sterling against the US dollar would have resulted in an increase in the Group's profit before tax by approximately £0.3m (2015: £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 2016 indications are that the UK bank base interest rate will not materially differ from 0.25% over the next 12 months. On the basis of the floating net cash position at 31 December 2016 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).

21. Financial Instruments (continued)

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

2016	**Fixed rate £000**	**Floating rate £000**	**Non-interest bearing £000**	**Total £000**
Group				
Trade and other receivables	**-**	**-**	**5,998**	**5,998**
Financial asset	**-**	**-**	**10**	**10**
Cash and cash equivalents	**-**	**4,189**	**-**	**4,189**
Trade and other payables	**-**	**-**	**(2,394)**	**(2,394)**
Deferred contingent consideration	**-**	**-**	**(1,108)**	**(1,108)**
Finance lease	**(113)**	**-**	**-**	**(113)**
	(113)	**4,189**	**2,506**	**6,582**

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)

2016	**Fixed rate £000**	**Floating rate £000**	**Non-interest bearing £000**	**Total £000**
Company				
Trade and other receivables	**-**	**-**	**2,301**	**2,301**
Financial asset	**-**	**-**	**10**	**10**
Cash and cash equivalents	**-**	**2,221**	**-**	**2,221**
Trade and other payables	**-**	**-**	**(4,332)**	**(4,332)**
Deferred contingent consideration	**-**	**-**	**(1,108)**	**(1,108)**
	-	**2,221**	**(3,129)**	**(908)**

21. 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 (2015: 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 15 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 2016, its £2.0m committed bank facility was undrawn (2015: £2.0m undrawn).

In respect of the Group's interest-bearing financial liabilities, the table in note 20 includes details at the reporting date of the periods in which they mature.

22. Deferred Tax

Group	2016 £000	2015 £000
Deferred tax assets		
Amounts due to be recovered within 12 months	**-**	-
Amounts due to be recovered after 12 months	**947**	663
Total deferred tax	**947**	663

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

	2016 £000	2015 £000
At beginning of the year	**663**	574
Net credit to income for the year	**804**	263
Net credit to equity	**215**	61
Arising on acquisitions during the year	**(762)**	-
Adjustments in respect of prior years	**73**	(179)
Effect of domestic tax rate change on opening balances	**(46)**	(56)
At end of the year	**947**	663

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 2015	(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
Credit/(charge) to profit or loss for the year	155	654	(76)	71	804
Credit to equity for the year	-	-	215	-	215
Arising on acquisitions in the year	(762)	-	-	-	(762)
Adjustments in respect of prior years	223	-	-	(150)	73
Effects of domestic tax rate change on opening balances	17	(14)	(39)	(10)	(46)
At 31 December 2016	**(835)**	**897**	**807**	**78**	**947**

Group

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 2016 were £nil (2015: £4.07m) due to uncertainty over the timing of the recoverability of these losses.

23. Retirement Benefit Obligations

The Group has five 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 2016 were £0.57m (2015: £0.46m).

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 2016 were £0.03m (2015: £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 2016 were £0.08m (2015: £0.08m).

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 2016 were £0.02m (2015: £0.02m).

Perceptive Instruments Limited - The Group made contributions to personal pension arrangements of certain employees however following the introduction of auto enrolment on 1 July 2016 these employees were entered into the Group Personal Pension Plan. During the year ended 31 December 2016 employer contributions to these arrangements prior to autoenrollment totalled £0.01m. (2015: £0.02m).

Samarind Group Pension Plan - The Scheme is a Group Personal Pension arrangement with Scottish Widows. Employee members must contribute at least 3% and the employer contributes up a maximum of 3% to the Scheme. During the period ended 31 December 2016 the employer made contributions of £0.01m (2015: £nil).

Defined benefit pension scheme

The Group also operates a pension scheme providing benefits based on final pensionable pay. This scheme was closed to new members with effect from 8 October 2001 and the rate of future benefit accrual reduced from 1/60th 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.

23. Retirement Benefit Obligations (continued)

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

The latest full actuarial valuation was carried out at 5 April 2014 and was updated to 31 December 2016 by a qualified independent actuary.

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

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.

23. Retirement Benefit Obligations (continued)

	2016 %	2015 %
Discount rate	**2.85**	3.80
Inflation (RPI)	**3.30**	3.20
Rate of increase in salaries	**N/A**	N/A
Rate of increase in pensions in payment	**3.00**	2.90
Rate of increase in pensions in deferment	**3.30**	3.20

Life Expectancy assumption (number of years from the age of 65)	**Years**	Years
Male currently aged 45	**24.5**	24.7
Female currently aged 45	**25.8**	25.9
Male currently aged 65	**23.3**	23.4
Female currently aged 65	**24.3**	24.4

ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	**2016** £000	2015 £000
Interest on pension scheme assets	**304**	289
Interest on pension scheme liabilities	**(443)**	(429)
Net finance charge	**(139)**	(140)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	**2016** £000	2015 £000
(Gains)/losses on pension scheme assets in excess of interest	**(1,252)**	136
Gains from changes to demographic assumptions	**(133)**	-
Losses from changes to financial assumptions	**2,577**	203
Actuarial loss recognised in other comprehensive expense	**1,192**	339

23. Retirement Benefit Obligations (continued)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		2016 £000	2015 £000
Opening defined benefit obligation		**11,782**	11,405
Interest cost		**443**	429
Benefits paid		**(233)**	(255)
Changes to demographic assumptions		**(133)**	-
Changes to financial assumptions		**2,577**	203
Closing defined benefit obligation		**14,436**	11,782

CHANGES IN THE FAIR VALUE OF PLAN ASSETS		2016 £000	2015 £000
Opening plan assets		**7,849**	7,524
Expected return		**304**	289
Return on plan assets less interest		**1,252**	(136)
Contributions by employer		**518**	427
Benefits paid		**(233)**	(255)
Closing plan assets		**9,690**	7,849

The actual return on plan assets was a positive return of £1.56m (2015: £0.15m).

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION		2016 £000	2015 £000
Present value of funded obligations		**(14,436)**	(11,782)
Fair value of plan assets		**9,690**	7,849
Deficit		**(4,746)**	(3,933)
Related deferred tax asset		**807**	707
Net pension liability		**(3,939)**	(3,226)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY		2016 £000	2015 £000
Opening net defined benefit liability		**3,933**	3,881
Net interest expense		**139**	140
Remeasurements		**1,192**	339
Contributions by employer		**(518)**	(427)
Closing net defined benefit liability		**4,746**	3,933

23. Retirement Benefit Obligations (continued)

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	**Cumulative 2016 £000**	Cumulative 2015 £000
Actual return less expected return on pension scheme assets	**1,362**	110
Experience gains and losses arising on scheme liabilities	**(1,811)**	(1,811)
Changes in demographic assumptions	**133**	-
Changes in assumptions underlying the present value of the scheme liabilities	**(5,019)**	(2,442)
Cumulative actuarial loss recognised in other comprehensive expense	**(5,335)**	(4,143)

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

	2016		2015	
	£000	**%**	£000	%
Equities	**6,959**	**72**	5,664	72
Property	**301**	**3**	227	3
Bonds	**1,232**	**13**	810	10
Corporate Bonds	**167**	**2**	672	9
Cash	**424**	**4**	378	5
Other	**607**	**6**	98	1
	9,690	**100**	7,849	100

The five-year history of experience adjustments is as follows:

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Present value of defined benefit obligation	**(14,436)**	(11,782)	(11,405)	(10,529)	(9,200)
Fair value of plan assets	**9,690**	7,849	7,524	7,023	6,004
Deficit	**(4,746)**	(3,933)	(3,881)	(3,506)	(3,196)
Experience adjustments on plan liabilities	**-**	-	(138)	-	(763)
Return on plan assets less interest	**1,252**	(136)	(7)	612	172

23. Retirement Benefit Obligations (continued)

The Group expects to contribute £0.5m to its defined benefit plan in the next financial year (2015: £0.4m).

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

Adjustments to assumptions	Approximate effect on liabilities £000
DISCOUNT RATE	
Plus 0.50% pa	(1,313)
Minus 0.50% pa	1,506
INFLATION	
Plus 0.50% pa	1,424
Minus 0.50% pa	(1,264)
LIFE EXPECTANCY	
Plus 1 year	(507)
Minus 1 year	503

24. Share Capital

Allotted, called up and fully paid	**2016 £000**	2015 £000
At 1 January		
13,043,774 ordinary shares of 10p each (2015: 12,212,260)	**1,304**	1,221
2,727,624 (2015: 831,514) ordinary shares of 10p each, issued during the year	**273**	83
At 31 December	**1,577**	1,304

On 23 February 2016, the Company raised £5.0 million (before expenses) by way of a placing of 2,500,000 new ordinary shares with new and existing investors. The Company issued 86,393 new ordinary shares in respect of part consideration of the acquisition of Samarind Limited. In addition, 141,231 shares were issued during the year in respect of the exercise of share options.

25. 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.

	2016			2015		
	Profit 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	**1,058**	**15,302**	**6.9**	(428)	12,398	(3.5)
Potentially dilutive shares	**-**	**324**	**-**	-	-*	-
Earnings per share-Diluted	**1,058**	**15,626**	**6.8**	(428)	12,398	(3.5)

* Dilutive share options have been excluded from the calculation as in accordance with IAS 33, 'Earnings 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.

	2016			2015		
	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	**1,752**	**15,302**	**11.5**	1,644	12,398	13.3
Potentially dilutive shares	**-**	**324**	**-**	-	337	-
Earnings per share-Diluted	**1,752**	**15,626**	**11.2**	1,644	12,735	12.9

Reconciliation of adjusted profit after tax:	**2016 £000**	2015 £000
Reported profit/(loss) after tax	**1,058**	(428)
Non-recurring (income)/costs	**(619)**	1,426
Amortisation of acquired intangibles	**667**	640
Foreign exchange differences on revaluation of inter-group balances	**646**	6
	1,752	1,644

26. Capital and Reserves

Share capital

The share capital account represents the par value for all shares issued. The Company has one class of share and each share rank parri passu and carry equal rights.

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.

27. Capital Commitments

There were no capital commitments at the end of the financial year (2015: £nil).

28. Operating Leases Payable

		2016 £000	2015 £000
Minimum lease payments under operating leases recognised as an expense in the year		**520**	368

At the reporting date, the Group has future aggregate minimum lease payments, which fall due as follows:		2016 £000	2015 £000
Land and buildings			
Within one year		**444**	395
In the second to fifth year inclusive		**778**	748
After five years		**236**	358
Plant and machinery			
Within one year		**10**	2
In the second to fifth year inclusive		**13**	3
		1,481	1,506

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 leases in relation to office buildings contains a dilapidation clause whereby Instem plc must make good any damage to the demised premises on expiration of the lease. 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.

29. 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 £0.5m (2015: £0.6m). The net intercompany balances due from the Company at the year-end totalled £1.9m (2015: due from: £1.2m).

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:	**2016 £000**	2015 £000
Fees for services provided as Non-Executive Directors		
Salaries and short term benefits	**82**	68
Post employment retirement benefits	**-**	-
Employers' national insurance & social security costs	**9**	7
Share based payment charge	**-**	-
	91	75
Executive Directors		
Salaries and short term benefits	**335**	318
Post employment retirement benefits	**40**	37
Employers' national insurance & social security costs	**25**	21
Share based payment charge	**105**	71
	505	447
Other key management		
Salaries and short term employee benefits	**567**	508
Post employment retirement benefits	**49**	26
Employers' national insurance & social security costs	**55**	45
Share based payment charge	**84**	57
	755	636

The Company paid £0.05m (2015: £0.05m) to Instem Ventures Limited, a company owned by A Gare, a shareholder. The balance outstanding at the end of the year was £nil (2015: £0.005m).

In addition, the Company paid £0.03m (2015: £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 £0.009m (2015: £0.002m).

In November 2016, the Group made a six-month loan of £0.07m to a member of the key management team. Interest is accrued at a rate of 3%. The balance outstanding at the end of the year was £0.07m (2015: £nil).

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

30. 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 (2015: £9.0m).

NOTES

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Directors and Advisors

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

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