Instem plc
Annual Report
2017

Information Solutions For Life

Instem is a leading provider of IT solutions & services to the life sciences market delivering compelling solutions for Study Management and Data Collection; Regulatory Solutions for Submissions and Compliance; and Informatics-based Insight Generation.

Instem solutions are in use by over 500 customers worldwide, including all the largest 25 pharmaceutical companies, enabling clients to bring life enhancing products to market faster. Instem's portfolio of software solutions increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem products and services now address aspects of the entire drug development value chain, from discovery through to market launch. Management estimate that over 50% of all drugs on the market have been through some part of Instem's platform at some stage of their development. To learn more about Instem solutions and its mission, please visit instem.com.

Our clients include these fine organisations...

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Highlights

Financial Highlights

- Revenues increased 19% to £21.7m (2016: £18.3m)
  - Recurring revenues increased 9% to £12.8m (2016: £11.7m)
  - Software as a Service (SaaS) revenues increased 10% to £4.4m (2016: £4.0m)
- EBITDA* of £3.0m (2016: £1.3m)
- Adjusted** profit before tax of £1.9m (2016: £0.7m)
- Reported profit before tax of £0.8m (2016: £0.02m)
- Basic earnings per share of 6.9p (2016: 6.9p)
- Adjusted** fully diluted earnings per share of 13.8p (2016: 11.2p)
- Net cash balance as at 31 December 2017 of £3.1m (2016: £4.2m)

Operational Highlights

- Appointment of Chief Operating Officer, Ms. MaryBeth Thompson
- Significant amendment to a contract with the US National Institute of Environmental Health Sciences (NIEHS)
- Successfully completed Group-wide re-organisation in June 2017 to reduce annualised operational overheads by approximately £1.5m or 10%, which:
  - helped to significantly improve the Group's profitability in the second half of 2017
  - will deliver a full year benefit in the current financial year
- Instem's largest customer brought into operation over 700 additional Provantis user licenses during 2017, delivering enhanced recurring revenue
- Successfully completed the integration of Samarind & Notocord, acquired in May and September 2016, respectively, with a solid contribution to overall revenue for the period
- Secured two new Alphadas clients in the second half of 2017 with a major pharmaceutical company and an India-based CRO.

Post period Highlights

- Secured the largest SEND outsourced services contract win to date with a top five global nonclinical CRO that plans to outsource all SEND data set generation to Instem

Instem products and services now address aspects of the entire drug development value chain, from discovery through to market launch, and are currently deployed by over 500 companies, including all of the largest 25 pharmaceutical companies in the world. Management estimate that over 50% of all drugs on the market have been through some part of the Group's platform at some stage of their development.

While new software license revenue was particularly strong in 2017, we also focused on opportunities to increase SaaS revenues and were very pleased to deliver an increase of over 10% during 2017, with both new SaaS customers and existing clients switching from on-premise to SaaS deployment.

The current financial year has started strongly with the largest SEND outsourced services contract win to date and one of the world's largest chemical products companies converting to the Group's market leading SaaS delivery model. These will deliver increased revenue and improved visibility for 2018 respectively. Furthermore, the recent restructuring will deliver the full twelve-month benefit in the current year.

The Board therefore looks forward to the coming year and beyond with increasing optimism on the back of an enhanced delivery platform, which promises to deliver significant revenue growth, enhanced profitability and improved quality of earnings.

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.

statement

MARKET LEADERSHIP

"Management estimate that over 50% of all drugs on the market have been through some part of the Group's platform at some stage of their development."

Chairman's Statement

Our priority in 2017 was to establish the platform for the next stage in the development of the Group, both operationally and financially. In this regard I am pleased to report that we believe that both objectives have been achieved.

Firstly, we have delivered strong financial results with an EBITDA of £3.0m (2016: £1.3m) and revenues of £21.7m (2016: £18.3m). This has been achieved in a manner that has ensured that we have either maintained or improved our position in all our targeted sectors, with many of our products already established global market leaders in their field.

Secondly, and importantly, at the half year we restructured and rationalised the operations of the various businesses which had been acquired over recent years. The efficiencies gained, whilst apparent in the second half of the year, will be ongoing for 2018 and beyond. In addition, and whilst not directly impacting our cost structure in 2017, we also, under the direction of Jerry Hacker, our SVP of Global sales, changed the emphasis of our global sales towards 'portfolio sales' of our product suite. This was a move from our previous structure of product sales specialists, which was an initial and inevitable consequence of the acquisitions we had made.

These two structural changes not only enhance our organic development plans, but pave the way for the integration of potential future acquisitions.

As stated in my half year report in September last year, we are now operating in all territories appertaining to the global healthcare research sector. We also now have leading products, not only in our traditional study management areas but also in regulatory solutions and informatics.

Whilst we are continuing to address some remaining legacy issues in our Clinical business, confidence is returning with the achievement of two major new contract wins towards the year end.

During the year, some notable achievements in our traditional markets were:

- Significant further commitment from the US National Institute of Environment Health Sciences ("NIEHS") under an existing multi-million-dollar 10-year contract
- Further growth in our market leadership in Asia-Pacific, with new clients in China, Japan and South Korea and successful cross-selling of additional products to existing clients
- Increased adoption in major pharma and CROs of our new enterprise genetic toxicology solution Cyto Study Manager (CSM)
- Widespread client implementation of Provantis version 10, including the world's largest deployment of this type of software at 14 global Charles River Laboratories sites

The 2016 acquisitions, Samarind and Notocord, both made very positive first full year contributions to the Group and both are expected to benefit further in 2018 from their access to Instem's global resources.

Of particular importance during the year was our substantive move into 'technology enabled outsourced services'. This included further consolidating our dominant market position in the provision of SEND technology and services. More recently, post year end, it has been particularly pleasing to see demand for SEND significantly increase across the industry, further justifying our strategy for early leadership in this market segment.

Our facility in Pune, India, will be a key 'skill centre' for this work. Pune has a rich supply of talented staff and a highly regarded reputation for technically demanding outsourced services. This makes it an ideal location for the expansion of our capacity for this type of work.

Finally, and encouragingly, our 'seed' informatics business, based in Cambridge, had a successful year, more than doubling the number of target safety assessment (TSA) assignments completed compared to the prior year.

To provide some measure of success the business has had over recent years, and the scale it now has, management estimate that over 50% of the drugs on the world market have now been through some part of the Instem platform at some stage in their development. This market position, together with the scalable platform resulting from the structural changes implemented last year, means that we believe that the Group is now well positioned to continue its success in 2018 and beyond.

D Gare
Non-Executive Chairman

CONTINUED GROWTH

"While new software license revenue was particularly strong in 2017, we also focused on opportunities to increase SaaS revenues and were very pleased to deliver an increase of over 10% during 2017."

report

Strategic Report

Strategic Development

The period under review was one of significant operational change and strategic progress, resulting in record full year revenue and profitability and a strong and scalable platform for future growth.

The arrival of our new Chief Operating Officer, MaryBeth Thompson at the start of the period, provided the opportunity to trigger the next stage of business reorganisation and integration. This saw the creation of centralised areas of excellence for all key operational functions under a new Operations leadership team, comprising new hires and existing experienced managers. The increased senior management team bandwidth has allowed us to analyse the opportunities, challenges and threats facing the business and also provided valuable insights into the Group's industry position and future opportunities. The process identified areas of the business where there was capacity that could be redeployed or reduced, and enabled a number of out-sourced activities to be more cost-effectively delivered in-house using UK and India based resources. This has all been achieved whilst ensuring the business remained agile and responsive to the dynamic markets in which it operates.

The Group successfully completed a Group-wide re-organisation in June 2017 to reduce annualised operational overheads by approximately £1.5m or 10%, which helped to significantly improve the Group's profitability in the second half of 2017 and will deliver a full year of benefit in 2018 and beyond.

We believe that Instem is now 'purpose built' to deliver software and services which address three distinct, but complementary, value propositions:

1. Study Management and Data Collection - efficiently capture, analyse and report scientific study data
2. Informatics - generate new insights from existing large data sets through the application of sophisticated big data aggregation and analytics
3. Regulatory Solutions - help clients ensure compliance with global regulators such as the FDA and EMA from the early stage of product development, through an approved product's entire commercial life

Revenue growth and profit contribution occurred in all of these areas of the business and each enhanced its market position during the year.

Instem products and services now address aspects of the entire drug development value chain, from discovery through to market launch and ongoing regulated product lifetime management. They are currently deployed by over 500 companies, including all of the largest 25 pharmaceutical companies in the world.

During the period Instem continued to win the majority of new business placed in nonclinical, our largest market, for both data collection and regulatory solutions, with strong year over year revenue growth in both early phase clinical and informatics.

While new software license business was particularly strong in 2017, we also focused on opportunities to increase SaaS revenue and were very pleased to see this increase over 10% during 2017 with both new SaaS customers and existing clients switching from on-premise to SaaS deployment.

Study Management and Data Collection

The global market demand for software that ensures the efficient capture, management and reporting of scientific force. We are also well-placed to support medical device businesses as they implement FDA Unique Device Identification ("UDI") requirements in the USA and start study data remains robust as the number of compounds in Research and Development continues to increase. According to a recent report from Informa's Pharma Intelligence, a leading industry and market analysis firm, the number of compounds in the Global R&D Pipeline increased by 2.7% to 15,267 in 2018, its highest ever number. We believe that this is due to a number of factors, but the overall trend is largely underpinned by global population growth and from increasing life expectancy, which is unlikely to change over the near-term.

Importantly, the number of compounds in the R&D Pipeline within preclinical and Phase I trials, where Instem specialises, has increased year on year by 7.3% and 3.0% respectively, indicating a growing potential for the Group's products and services within these market segments.

The Group is particularly pleased to report that its contract with the NIEHS has progressed well since it was first announced in 2013. As anticipated, this 10-year contract for the capture, recording and analysis of preclinical safety evaluation study data has expanded in scope since commencement, with the number of locations and the number of authorised users both increasing over the period, further demonstrating the increasing value of the Group's software and services to the NIEHS.

Our largest customer also brought into operation over 700 additional Provantis user licenses during 2017, triggering enhanced recurring revenue.

Assisted by our mid-2017 restructuring, significant software development investment continues to be made in Alphadas to ensure that we fully satisfy existing client needs and continue to secure a sizeable market share in a competitive market. We were particularly pleased to secure two new Alphadas clients in the second half of 2017, a major pharmaceutical company and an India based CRO, which we anticipate being an important reference client in a region with several potential additional clients.

Our genetic toxicology solutions continue to dominate their market and following the release of our new Cyto Study Manager solution, we made new sales into existing Instem key pharma and CRO accounts.

The Notocord business acquired in September 2016 has integrated well and has made a solid contribution during the period. Of particular note was a large order for the U.S. Army Medical Research Institute of Infectious Diseases, however the majority of new business generated in this area was from a large number of contracts; generally additional modules for existing clients, averaging less than £15,000 each.

Informatics

The KnowledgeScan™ informatics-based service was formally launched by the Group in 2016 and has developed well in 2017. It offers the pharmaceutical industry insightful new ways to create value from huge volumes of public and proprietary scientific health-related data to reduce the risk and cost of bringing new drugs to market.

The initial application of KnowledgeScan™ is for Target Safety Assessment ("TSA"), a process routinely undertaken at the earlier stages of drug discovery, but with continuing value throughout the drug development process. Business volume has more than doubled in 2017, reaching production capacity in most months. We have added some resource and TSA capacity has been further increased through process automation. Repeat business remains encouraging with over 80% of customers having already placed additional orders.

Regulatory Solutions

Regulatory Solutions represent a growing market opportunity for Instem with a broad target market in Regulatory Information Management ("RIM") and growing demand for our regulatory submission related products and services that implement the FDA mandated Standard for the Exchange of Nonclinical Data.

Regulatory Information Management

Our Samarind RMS RIM product made an excellent first full year contribution, with solid recurring revenue and the addition of some new client wins. These new business orders were received in four niche sectors of the RIM market, where we see further opportunity for Instem, and were for:

- One of the world's top 10 medical device businesses, for the entire Samarind RMS suite
- A leading generic medicines supplier
- A veterinary health products provider
- A European specialist pharma company

The new business sales function was fully integrated into our global sales department in 2017, bringing additional resources and a consistent sales process and management.

The industry and regulatory initiative to implement an internationally harmonised standard for the Identification of Medicinal Products ("IDMP") has been delayed by several years, while the working groups finalise the details of the standard and how to successfully roll it out. However, it remains of keen interest to our current customers and prospects. We remain confident, given our leadership in implementing the current European standard, that we are well-placed to execute on this initiative as and when it comes into the process of responding to the new Medical Device Regulations ("MDR") and In-vitro Diagnostics Regulations ("IVDR") that are being rolled out in Europe.

Standard for the Exchange of Nonclinical Data ("SEND")

Based on historic regulatory submission volumes, Instem anticipates that, to meet mandated FDA submission requirements, SEND related market expenditure will increase from approximately $10m in 2016 to around $130m in 2020. As Instem is currently the leading provider of SEND software products and technology enabled outsourced services this represents a significant growth opportunity.

Instem continues to dominate the SEND technology market, with software sales during the period predominantly focused on our modules for viewing and exploring SEND datasets. With the first regulatory mandate coming into force in December 2016, those companies who hadn't already equipped themselves with the technology to create SEND datasets are now predominantly looking for out-sourced service providers for SEND creation. Whilst we have won the majority of out-sourced services contracts, many clients were initially slow to provide data for conversion, however this picked up during the second half of 2017 and has accelerated further in the first quarter of 2018.

During 2017, enquiries for the Group's SEND software solutions and its outsourcing services in particular, continued to increase, as the next major milestone of the SEND mandate came into effect in December 2017. This mandate covers shorter duration studies that are undertaken in much greater volume, to tighter deadlines. As expected, it has generated a significant increase in SEND conversion demand.

Instem now has a total of 92 customers that have procured the Group's SEND technology and/or out-sourced services, which includes nine of the top 10 preclinical CROs and 20 of the world's top 25 global pharmaceutical companies. Established SEND-related client relationships are expected to be a significant source of future business as the volume of out-sourced services increases.

During 2017, the Group introduced a new software module, SENDTrial™, that will deliver significant efficiencies for clients (and our internal Services team) by reducing processing time in one specific area by up to 80%. This product is the first of its type on the market and offers a solution which can be deployed alongside Instem's existing submit™ products, or used independently. SENDTrial™ will create additional opportunities for Instem as those companies that are currently running competing systems cannot efficiently meet these specific requirements.

In addition, Instem has released an updated version of our submit™ software that enables clients to satisfy an FDA request for test data, supporting the development of the next version of the standard.

Summary and Outlook

Instem products and services now address aspects of the entire drug development value chain, from discovery through to market launch, and are currently deployed by over 500 companies, including all of the largest 25 pharmaceutical companies in the world. Management estimate that over 50% of all drugs on the market have been through some part of the Group's platform at some stage of their development.

While new software license revenue was particularly strong in 2017, we also focused on opportunities to increase SaaS revenues and were very pleased to deliver an increase of over 10% during 2017, with both new SaaS customers and existing clients switching from on-premise to SaaS deployment.

The current financial year has started strongly with the largest SEND outsourced services contract win to date and one of the world's largest chemical products companies converting to the Group's market leading SaaS delivery model. These will deliver increased revenue and improved visibility for 2018 respectively.

Furthermore, the recent restructuring will deliver the full twelve-month benefit in the current year.

The Board therefore looks forward to the coming year and beyond with increasing optimism on the back of an enhanced delivery platform, which promises to deliver significant revenue growth, enhanced profitability and improved quality of earnings.

On behalf of the Board

P J Reason
Chief Executive

23 April 2018

OUTLOOK

"The current financial year has started strongly with the largest SEND outsourced services contract win to date and one of the world's largest chemical products companies converting to the Group's market leading SaaS delivery model."

review

Financial Review

Instem's revenue model consists of perpetual licence income with annual support contracts, professional and technology enabled outsourced services fees, and SaaS subscriptions with annual support contracts. Total revenue for the year to 31 December 2017 increased by 19% to £21.7m (2016: £18.3m). This increase includes the impact of full year revenues from the prior year acquisitions of £2.5m 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 annual support fees relating to these subscriptions increased by 9% to £12.8m (2016: £11.7m), representing 59% of total revenue (2016: 64%). This includes recurring revenue generated from our 2016 acquisitions of £1.7m (2016: £0.8m).

Another key performance indicator of the Group is the number and quality of customers. In 2017 the Group had in excess of 500 customers (2016: in excess of 500 customers) for continuing products including all of the largest 25 pharmaceutical companies in the world.

Earnings before interest, tax, depreciation and amortisation and non-recurring items for the year was £3.0m (2016: £1.3m).

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 £1.9m (2016: £0.7m). The unadjusted profit before tax for the year was £0.8m (2016: £0.02m).

The non-recurring items in the year included £0.6m in respect of the restructuring costs relating to the redundancy and legal costs connected with the Group's business reorganisation implemented in the first half of 2017, together with a cost provision relating to historical contract disputes. The non-recurring items also included income of £0.2m in respect of an amendment to the deferred contingent consideration payable in respect of the Notocord acquisition.

Development costs incurred during the year were £3.3m (2016: £2.6m), of which £1.4m (2016: £0.8m) was capitalised. The Group claimed research and development tax credits in respect of 2017 of £0.6m (2016: £0.4m)

Basic and fully diluted earnings per share calculated on an adjusted basis were 14.1p and 13.8p respectively (2016: 11.5p basic and 11.2p diluted).

The Group generated net cash from operating activities of £1.4m (2016: £0.1m). The Group had net cash reserves of £3.1m at 31 December 2017, compared with £4.2m as at 31 December 2016. The Group paid £0.7m in respect of deferred consideration during the year and continued to invest in the software products developed by the Group. There is one final deferred consideration amount of £0.2m within Current Financial Liabilities in respect of prior year acquisitions, which is payable in the first half of 2018.

The Group's legacy defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008. It experienced a decrease in the funding deficit during the year, calculated in accordance with the provisions of IAS19, that amounted to £0.8m (net of deferred tax) (2016: increase in funding deficit £0.7m) due to gains on the pension scheme assets in excess of interest. This is mainly a non-cash credit and was recognised in Other Comprehensive Income/(Expense). The overall deficit at the year-end stood at £3.8m (2016: £4.7m), represented by the fair value of assets of £10.8m (2016: £9.7m) and the present value of funded obligations of £14.6m (2016: £14.4m). 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, the results of which will be reported in the Group's 2018 Interim financial statements.

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 has identified the risk of cyber security and breach of information as a principal risk. The Group mitigates against this risk with compliance to ISO 27001 certified processes, strong IT controls and specific cyber insurance.

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 2017, its £2.0m bank facility was undrawn (2016: £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 code issued by the Quoted Companies Alliance 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	10/10	2/2	4/4	0/0
N J Goldsmith	10/10	2/2	1/1	0/0
Non-Executive directors				
D Gare	10/10	2/2	4/4	1/1
D M Sherwin	10/10	2/2	4/4	1/1
M F McGoun	10/10	2/2	4/4	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;
c. is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise; and

Nomination Committee (continued)

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.

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 2017.

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 life sciences 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

A 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 2017 and up to the date of this report (2016: as at 12 April 2017) were as follows:

No. of Shares	2017	2016
D Gare	1,258,427	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 2017 or 2016.

Financial Instruments

The Group's objectives and policies on financial instruments are set out in note 20 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 24 May 2018 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

23 April 2018

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 four 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 £nil were payable to executive directors in respect of the year ended 31 December 2017 (2016: £0.02m).

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 or payable to directors in respect of the year ended 31 December 2017 were as follows:

	Salary and Bonus £000	Benefits £000	Pension £000	**2017 Total £000**	2016 Total £000
Executives					
P J Reason*	210	7	29	**246**	241
N J Goldsmith	116	7	11	**134**	134
Non-executives					
D Gare	60	-	-	**60**	52
D M Sherwin	30	-	-	**30**	30
M F McGoun	30	-	-	**30**	30
Total	446	14	40	500	487

* The remuneration in respect of P J Reason is payable in US Dollars and translated at the average rates as disclosed on page 34.

Directors' and Employees' Share Options

	Exercise price (£)	Issue date	Held at 31 Dec 2016	Granted during Year	Exercised during Year	Lapsed during Year	Held at 31 Dec 2017
P J Reason	1.750	13/10/2010	187,427	-	-	-	187,427
Ordinary	0.900	14/01/2013	23,429	-	-	-	23,429
shares	0.100	29/07/2015	112,500	-	-	(18,750)	93,750
							304,606
N J Goldsmith	2.215	29/11/2011	40,000	-	-	-	40,000
Ordinary	1.760	07/02/2012	20,000	-	-	-	20,000
shares	0.900	14/01/2013	15,000	-	-	-	15,000
	0.100	29/07/2015	75,000	-	-	(12,500)	62,500
							137,500
Employees	1.750	13/10/2010	253,026	-	-	-	253,026
Ordinary	2.220	03/03/2011	93,844	-	-	-	93,844
shares	2.220	17/10/2011	14,667	-	-	-	14,667
	1.115	23/10/2012	21,500	-	(21,500)	-	-
	0.900	14/01/2013	49,800	-	(5,154)	-	44,646
	0.100	11/02/2015	40,584	-	-	-	40,584
	0.100	29/07/2015	150,000	-	-	(25,000)	125,000
	0.100	21/11/2015	25,258	-	-	-	25,258
	0.100	27/05/2016	34,558	-	-	(12,959)	21,599
	0.100	19/09/2016	52,500	-	-	(30,000)	22,500
	0.100	03/05/2017	-	20,000	-	(5,000)	15,000
							656,124
Total			**1,209,093**	**20,000**	**(26,654)**	**(104,209)**	**1,098,230**

Subsequent to the year end, on 22 February 2018, 400,000 share options were granted to directors and employees.

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

We have audited the financial statements of Instem plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Cashflows, Company Statement of Cashflows, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies. 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 of the parent company's affairs as at 31 December 2017 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 company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to page 33 regarding the accounting policy in respect of revenue recognition and note 1 to the financial statements on page 38.

The risk

Appropriate and accurate income recognition is required to be applied by the Directors to ensure that revenue is recognised in accordance with IAS 18 Revenue within the financial statements. There is a risk that revenue could be inappropriately recognised based on the differing recognition policies for product type. In the year to 31 December 2017 revenue recognised amounted to £21.7m (2016: £18.3m).

Our response

We have conducted audit work on each revenue stream, tested a sample of customer revenues back to signed agreements and accounting standards for the revenue stream, and performed additional cut-off testing on key revenue streams in order to identify any areas of material misstatement. We have also reviewed the treatment of new or revised contracts alongside the requirements of IAS 18.

Provisions

Refer to page 36 regarding the accounting policy in respect of provisions, page 37 in respect of critical judgements and estimates applied by the Directors and note 23 on page 64.

The risk

The directors are required to apply the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets within the financial statements. There is a risk that the judgement in recognising the provision made by management in respect of any such provisions do not fulfil the recognition criteria, furthermore estimation is required by management for the value at the period end. At 31 December 2017 provisions amounting to £0.25m (2016: £nil) have been recognised.

Our response

We have obtained all communications in respect of items provided including legal correspondence obtained by the board. We have challenged the appropriateness of advice relied upon by Instem plc including considerations of the qualifications of their legal advisors. Where assumptions have been made by the groups legal advisors received based on representations made by the Board we have challenged these and obtained support. We have audited the underlying basis for the estimates made by management at the year end and have assessed its recognition against the accounting standards criteria.

Carrying value of Company investments

Refer to page 36 regarding the accounting policy in respect of investments, page 37 in respect of critical judgements and estimates applied by the Directors and note 11 on page 46.

The risk

The Company has material investments in subsidiary undertakings which may not be supported by their trading levels. As a consequence, there is a significant risk that these are impaired and need to be written down. At the 31 December 2017, the carrying value of these investments amounted to £28.7m (2016: £28.4m) in the Company Statement of Financial Position.

Our response

We identified investments in each subsidiary undertaking and discussed with management whether each balance was supportable taking into account the strategic plans established by the board in respect of each subsidiary undertaking. We also obtained management's impairment review and underlying calculations prepared to support the carrying value of the investments. We reviewed forecasts and considered whether they were consistent with the forecasts prepared by management in relation to going concern. In addition, we reviewed the assumptions utilised in the model and agreed a sample of these back to supporting information.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £235,000, this was changed during the course of our audit to £311,000. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £2,500, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Eight of the Group's components were subject to full scope audit procedures for group and statutory reporting purposes. We did not rely on the work of any component auditors. As part of our planning we assessed the risk of material misstatement including those that required significant auditor consideration at the component and group level. Procedures were then performed to address the risk identified and for the most significant assessed risks of material misstatement, the procedures performed are outlined above in the key audit matters section of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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
- 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 group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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
Chartered Accountants
14th Floor
Chapel Street
Liverpool
L3 9AG

24 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

CONTINUING OPERATIONS	Note	**Year ended 31 December 2017 £000**	Year ended 31 December 2016 £000
REVENUE	1	**21,668**	18,319
Operating expenses	2	**(18,549)**	(16,843)
Share based payment		**(157)**	(223)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ('EBITDA')		**2,962**	1,253
Depreciation		**(186)**	(156)
Amortisation of intangibles arising on acquisition		**(931)**	(667)
Amortisation of internally generated intangibles		**(473)**	(380)
PROFIT BEFORE NON-RECURRING (COSTS)/INCOME	2	**1,372**	50
Non-recurring (costs)/income	3	**(443)**	619
PROFIT AFTER NON-RECURRING (COSTS)/INCOME AND BEFORE FINANCE INCOME/(COSTS)		**929**	669
Finance income	4	**186**	-
Finance costs	5	**(318)**	(646)
PROFIT BEFORE TAXATION		**797**	23
Taxation	9	**297**	1,035
PROFIT FOR THE YEAR		**1,094**	**1,058**
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that will not be reclassified to profit and loss account:			
Actuarial gain/(loss) on retirement benefit obligations		**664**	(1,192)
Deferred tax on actuarial (gain)/loss		**(113)**	215
		551	(977)
Items that may be reclassified to profit and loss account:			
Exchange differences on translating foreign operations		**(565)**	844
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(14)**	(133)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,080**	925
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**1,094**	1,058
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**1,080**	925
Earnings per share from continuing operations attributable to owners of the parent company:			
Basic	25	**6.9p**	6.9p
Diluted	25	**6.8p**	6.8p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	10	**17,440**		17,607	
Property, plant and equipment	12	**299**		374	
Deferred tax assets	21	**300**		947	
TOTAL NON-CURRENT ASSETS			**18,039**		18,928
CURRENT ASSETS					
Inventories	13	**29**		916	
Trade and other receivables	14	**9,470**		6,899	
Current tax receivable	18	**1,267**		-	
Financial asset	15	**-**		10	
Cash and cash equivalents	16	**3,064**		4,189	
TOTAL CURRENT ASSETS			**13,830**		12,014
TOTAL ASSETS			**31,869**		30,942
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	**2,777**		2,670	
Deferred income		**10,370**		9,092	
Current tax payable	18	**226**		429	
Financial liabilities	19	**220**		979	
TOTAL CURRENT LIABILITIES			**13,593**		13,170
NON-CURRENT LIABILITIES					
Financial liabilities	19	**51**		242	
Retirement benefit obligations	22	**3,750**		4,746	
Provision for liabilities and charges	23	**250**		-	
TOTAL NON-CURRENT LIABILITIES			**4,051**		4,988
TOTAL LIABILITIES			**17,644**		18,158
EQUITY					
Share capital	24	**1,589**		1,577	
Share premium	26	**12,488**		12,462	
Merger reserve	26	**1,598**		1,432	
Shares to be issued	26	**794**		864	
Translation reserve	26	**483**		1,048	
Retained earnings	26	**(2,727)**		(4,599)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**14,225**		12,784
TOTAL EQUITY AND LIABILITIES			**31,869**		30,942

The financial statements on pages 26 to 68 were approved by the board of directors and authorised for issue on 23 April 2018 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	2017		2016	
ASSETS		**£000**	**£000**	£000	£000
NON-CURRENT ASSETS					
Investments	11	**28,711**		28,426	
TOTAL NON-CURRENT ASSETS			**28,711**		28,426
CURRENT ASSETS					
Trade and other receivables	14	**2,246**		2,301	
Financial asset	15	**-**		10	
Cash and cash equivalents	16	**1,036**		2,221	
TOTAL CURRENT ASSETS			**3,282**		4,532
TOTAL ASSETS			**31,993**		32,958
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	**3,876**		4,332	
Financial liabilities	19	**188**		950	
TOTAL CURRENT LIABILITIES			**4,064**		5,282
NON-CURRENT LIABILITIES					
Financial liabilities	19	**-**		158	
TOTAL NON-CURRENT LIABILITIES			**-**		158
TOTAL LIABILITIES			**4,064**		5,440
EQUITY					
Share capital	24	**1,589**		1,577	
Share premium	26	**12,488**		12,462	
Merger reserve	26	**13,232**		13,066	
Shares to be issued	26	**794**		864	
Retained earnings	26	**(174)**		(451)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**27,929**		27,518
TOTAL EQUITY AND LIABILITIES			**31,993**		32,958

The Company's profit for the year and total comprehensive income for the year was £50,000 (2016: £744,000).

The financial statements on pages 26 to 68 were approved by the board of directors and authorised for issue on 23 April 2018 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 2017

		2017		2016	
	Note	£000	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		797		23	
Adjustments for:					
Depreciation		186		156	
Loss on disposal of property, plant and equipment		-		2	
Amortisation of intangibles		1,404		1,047	
Share based payment		157		223	
Retirement benefit obligations		(461)		(518)	
Finance income		(186)		-	
Finance costs		318		646	
Decrease in deferred contingent consideration		(148)		(1,017)	
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			2,067		562
Movements in working capital:					
Decrease in inventories		700		12	
Increase in trade and other receivables		(3,043)		(1,737)	
Increase in trade, other payables and deferred income		1,808	(535)	1,810	85
CASH GENERATED FROM OPERATIONS			1,532		647
Finance income		186		-	
Finance costs		(112)		(379)	
Income taxes		(214)	(140)	(141)	(520)
NET CASH GENERATED FROM OPERATING ACTIVITIES			1,392		127
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of intangible assets		(1,517)		(890)	
Purchase of property, plant and equipment		(117)		(113)	
Payment of deferred contingent consideration		(687)		-	
Repayment of capital of finance leases		(30)		(32)	
Purchase of subsidiary undertakings		-		(2,348)	
NET CASH USED IN INVESTING ACTIVITIES			(2,351)		(3,383)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		29		4,823	
Finance lease interest		(6)		(8)	
NET CASH GENERATED FROM FINANCING ACTIVITIES			23		4,815
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			(936)		1,559
Cash and cash equivalents at start of year			4,189		2,183
Effects of exchange rate changes on the balance of cash held in foreign currencies			(189)		447
CASH AND CASH EQUIVALENTS AT END OF YEAR	16		3,064		4,189

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
	Note	**£000**	**£000**	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**50**		744	
Adjustments for:					
Finance income		**-**		(18)	
Finance cost		**150**		129	
Decrease in deferred contingent consideration		**(148)**		(1,017)	
CASH FLOWS FROM/(USED IN) OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**52**		(162)
Movements in working capital:					
Decrease in trade and other receivables			**55**		320
(Decrease)/increase in trade and other payables			**(573)**		496
NET CASH (USED IN)/GENERATED FROM OPERATIONS			**(466)**		654
Finance costs			**(61)**		-
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES			**(527)**		654
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		**-**		9	
Purchase of subsidiary undertakings		**-**		(3,289)	
Payment of deferred consideration		**(687)**		-	
NET CASH USED IN INVESTING ACTIVITIES			**(687)**		(3,280)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**29**		4,823	
NET CASH GENERATED FROM FINANCING ACTIVITIES			**29**		4,823
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS			**(1,185)**		2,197
Cash and cash equivalents at start of year			**2,221**		24
CASH AND CASH EQUIVALENTS AT END OF YEAR	16		**1,036**		2,221

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 2016	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
Profit for the year	-	-	-	-	-	1,094	1,094
Other comprehensive (expense)/income for the year	-	-	-	-	(565)	551	(14)
Total comprehensive income	-	-	-	-	(565)	1,645	1,080
Shares issued	12	26	166	-	-	-	204
Share based payment	-	-	-	157	-	-	157
Reserve transfer on lapse of share options	-	-	-	(227)	-	227	-
Balance as at 31 December 2017	**1,589**	**12,488**	**1,598**	**794**	**483**	**(2,727)**	**14,225**

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 2016	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
Profit for the year	-	-	-	-	50	50
Shares issued	12	26	166	-	-	204
Share based payment	-	-	-	157	-	157
Reserve transfer on lapse of share options	-	-	-	(227)	227	-
Balance as at 31 December 2017	**1,589**	**12,488**	**13,232**	**794**	**(174)**	**27,929**

ACCOUNTING POLICIES

GENERAL INFORMATION

The principal activity and nature of operations of the Group is the provision of world class IT solutions to the life sciences 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 two of its subsidiaries Instem Life Science Systems Limited (company number 04339129) and Instem Scientific Solutions Limited (company number 03598020), by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these two 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 £0.05m (2016: £0.74m).

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

The definition of recurring revenues has been amended in these financial statements in comparison to the 2016 financial statements. The recurring revenues disclosed in the prior year were annual support and maintenance fees together with the SaaS subscription and related annual support fees together with other recurring professional services. In these financial statements the other recurring professional services have been excluded from the recurring revenue calculation. The 2017 and 2016 comparative disclosures in these financial statements are calculated on a consistent basis.

The definition of the revenue type of SaaS has been expanded in these financial statements in comparison to the 2016 financial statements. The SaaS revenue disclosed in the prior year reflected the SaaS subscription fees. In these financial statements the annual support and maintenance revenues in relation to SaaS customers has also been included in addition to the subscription fees. The 2017 and 2016 comparative disclosures in these financial statements are calculated on a consistent basis.

It is the opinion of the directors that the above changes are considered more appropriate to better reflect the performance of the Group.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the parent company, Instem plc, and its subsidiary undertakings made up to 31 December 2017 and 31 December 2016.

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 £10.6m at 31 December 2017 (2016: £7.9m). 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 working capital facility of £2.0m which was undrawn at 31 December 2017.

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, outsourced services, 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, finance costs and taxation, 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)
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)

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 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
Average rate for year ended 31 December 2017	**1.2886**	**10.0426**	**8.7036**	**83.8497**	**144.493**	**1.1416**
Closing rate at 31 December 2017	**1.3513**	**10.5678**	**8.7931**	**86.2715**	**152.231**	**1.126**

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, arrangement and service fees, 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.

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.

ACCOUNTING POLICIES

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.

PROVISION FOR LIABILITIES AND CHARGES

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount can be reliably estimated.

FINANCIAL INSTRUMENTS

Classification of financial instruments

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

Recognition and valuation of financial assets

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

Investments

Investments in subsidiaries 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.

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.

Provision for liabilities and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the probable outflow of resources, and a reliable estimate can be made of the amount of the obligation. As at 31 December 2017, the Group has made a provision of £0.25m in respect of historical contract disputes as the directors have considered that the above provision conditions have been met. The provision represents the best estimate of the risks and considers all information and legal advice received by the Group.

Impairment

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

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 2017. 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

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

IFRS 15 'Revenue from Contracts with Customers' will replace IAS 18 'Revenue' for accounting periods commencing on or after 1 January 2018. For Instem, the effective date is the financial year commencing 1 January 2018.

The core principle of the standard is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer. To apply this principle, entities must follow the five-step model below:

1. Identify the contract(s) with a customer written, oral or implied by an entity's customary business practices.
2. Identify the performance obligations in the contract(s) and evaluate the terms in the contract to identify all the promised goods or services and then determine which of these will be treated as separate performance obligations.
3. Determine the transaction price – the amount that an entity expects to be entitled to in exchange for transferring goods or services to a customer.
4. Allocate the transaction price to the performance obligations.
5. Recognise revenue when the entity satisfies each performance – when control of a promised good or service transfers to the customer.

The Group are progressing their review of the implications and impact of IFRS 15 'Revenue from Contracts with Customers' by thorough and careful review of the customer contracts across the Instem group. Full disclosure will be reported in the June 2018 interim statement. The Group are also considering IFRS 16 'Leases' for 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 12 'Recognition of Deferred Tax Assets for Unrealised Losses' (Amended) effective – 1 January 2017

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

1. Segmental Reporting

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

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

	REVENUE	
	2017 £000	2016 £000
REVENUE BY PRODUCT TYPE		
Licence fees	**5,813**	4,162
Annual support fees	**8,442**	7,716
SaaS subscription and support fees	**4,406**	4,027
Professional services	**1,891**	2,257
Outsourced services	**1,116**	157
	21,668	18,319

	REVENUE	
	2017 £000	2016 £000
REVENUE BY GEOGRAPHICAL LOCATION		
United Kingdom	**2,670**	3,329
Rest of Europe	**4,567**	3,232
USA and Canada	**12,246**	9,829
Rest of World	**2,185**	1,929
	21,668	18,319

	NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION	
	2017 £000	2016 £000
BY GEOGRAPHICAL LOCATION		
United Kingdom	**17,167**	17,750
Rest of Europe	**320**	16
USA and Canada	**214**	165
Rest of World	**38**	50
	17,739	17,981

Major customers

There were no customers which represented more than 10% of the Group revenue in 2017 and 2016.

2. Profit Before Non-Recurring (Costs)/Income

	2017 £000	2016 £000
Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	**156**	126
Leased assets	**30**	30
Loss on disposal of property, plant and equipment	**-**	2
Amortisation of intangible assets	**1,404**	1,047
Research and development costs	**1,831**	1,840
Operating lease rentals:		
Plant and machinery	**61**	39
Land and buildings	**521**	481
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	**21**	17
Other services:		
Audit of subsidiaries where such services are provided by RSM UK Audit LLP or its associates	**67**	64
Audit related assurance services	**16**	16
Taxation services - Compliance	**22**	18
Taxation services - Advisory	**17**	4
Due diligence	**-**	47
Other services	**1**	-
	144	166

2. Profit Before Non-Recurring (Costs)/Income (continued)

The following table analyses the nature of operating expenses:

	2017 £000	2016 £000
Staff costs (see note 6)	**11,981**	10,706
Operating lease rentals	**582**	520
Software maintenance charges	**549**	444
Licence costs	**1,685**	599
Other expenses	**3,752**	4,574
Total operating expenses	**18,549**	16,843

3. Non-Recurring (Costs)/Income

	2017 £000	2016 £000
Professional fees in respect of acquisitions	**-**	(249)
Amendment to consideration payable in respect of Instem Clinical	**-**	690
Restructuring costs	**(341)**	-
Restructuring costs in respect of Instem Clinical	-	(149)
Amendment to contingent consideration post acquisition	**148**	327
Cost provision relating to historical contract disputes	**(250)**	-
	(443)	619

The professional fees in the prior year relate to the acquisition of Samarind Limited on 27th May 2016 and Notocord on 2nd September 2016.

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

The restructuring costs relate to the redundancy and legal costs relating to the Group's business reorganisation and integration strategy which was implemented in the first half of 2017.

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

As at 31 December 2017, the Group has made a provision of £0.25m in respect of historical contract disputes. See Critical Accounting Estimates and Judgements in the accounting policies.

4. Finance Income

	2017 £000	2016 £000
Foreign exchange gains	**184**	-
Other interest	**2**	-
	186	-

5. Finance Costs

	2017 £000	2016 £000
Bank loans and overdrafts	**112**	32
Unwinding discount on deferred consideration	**71**	120
Net interest charge on pension scheme	**129**	139
Foreign exchange losses	**-**	347
Finance lease interest	**6**	8
	318	646

6. Employees

	2017 Number	2016 Number
Average monthly number (including non-executive directors)		
By role:		
Directors, administration and supervision	**43**	42
Software design, sales and customer service	**174**	154
	217	196
	2017 £000	2016 £000
Employment costs:		
Wages and salaries	**10,181**	9,045
Social security costs	**1,047**	890
Other pension costs	**753**	771
	11,981	10,706

In addition to the above employment costs, the Group had non-recurring employment costs of £0.34m (2016: £0.15m) as disclosed in note 3.

The Company had three employees during the year and 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.

	2017		2016	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	**1,209,093**	**1.07**	1,387,016	1.02
Granted	**20,000**	**0.10**	104,558	0.10
Lapsed	**(104,209)**	**0.10**	(141,250)	0.10
Exercised	**(26,654)**	**1.07**	(141,231)	0.83
Outstanding at end of the year	**1,098,230**	**1.14**	1,209,093	1.07
Exercisable at end of year	**757,881**	**1.61**	784,535	1.59

The options outstanding at 31 December 2017 and 31 December 2016 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 4 years 11 months (2016: 6 years 1 month).

A charge of £0.2m (2016: £0.2m) 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:

	2017
Average exercise price	0.10
Average market price	1.79
Average vesting period (years)	3
Expected volatility	26.4
Option life (years)	10
Expected life	3
Risk free rate	2%
Expected dividend yield	-
Expected lapse rate	-
Fair value of options	1.69

Volatility since listing in 2010 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 21,599 shares (2016: 312,058) 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 was £0.03m (2016: £0.3m).

During the year, the average share price in respect of share options exercised was £1.65 (2016: £2.55).

8. Directors' Emoluments

		2017 £000	2016 £000
Amounts payable by Instem plc:			
Emoluments*		**120**	112
Amounts payable by subsidiary companies:			
Emoluments		**340**	335
Defined contribution pension contributions		**40**	40
Total emoluments		**500**	487

* The above emoluments include £30,000 (2016: £30,000) payable to third parties as shown in note 29.

		2017 Number	2016 Number
Number of directors to whom retirement benefits are accruing under:			
Defined contribution schemes		**2**	2

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

9. Taxation

Income taxes recognised in profit or loss:	2017 £000	2016 £000
Current tax:		
UK corporation tax on profit of the year	-	(244)
Amounts in respect of previously unrecognised losses	-	141
Foreign tax	(379)	(400)
Foreign tax in respect of previous years	306	45
Adjustments in respect of previous years	337	312
Adjustments in respect of R&D tax credit	567	350
Total current tax	831	204
Deferred tax:		
Current year (charge)/credit	(121)	421
Amounts in respect of previously unrecognised losses	-	459
Adjustment in respect of previous years	(357)	73
Retirement benefit obligation	(56)	(76)
Effects of domestic tax rate change on opening balances	-	(46)
Total deferred tax	(534)	831
Total income tax credit recognised in the current year	297	1,035

The income tax expense can be reconciled to the accounting profit as follows:	2017 £000	2016 £000
Profit before tax	797	23
Profit before tax multiplied by standard rate of corporation tax in the UK 19.25% (2016: 20%)	(153)	(5)
Effects of:		
Income/(expenses) not allowable/(deductible) for tax purposes	(74)	23
Fixed asset temporary differences	(101)	(164)
Differences in overseas tax rates	(105)	(85)
Adjustments in respect of prior years	286	430
Foreign tax suffered in excess of double tax relief	(69)	(110)
Effects of domestic tax rate change on opening balances	-	(46)
Adjustment in respect of R&D tax credit	567	350
Other temporary differences	(102)	97
Tax losses utilised	48	141
Tax losses carried forward not previously recognised	-	526
Overseas tax losses not carried forward	-	(122)
Total income tax credit recognised in consolidated statement of comprehensive income	297	1,035

10. Intangible Assets

Group	Goodwill £000	Software £000	Intellectual property £000	Customer relationships £000	Patents £000	Total £000
Cost						
At 1 January 2016	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
Additions from continuing operations	-	1,517	-	-	-	1,517
Fair value adjustment	(425)	-	-	-	-	(425)
Transferred from work in progress	-	166	-	-	-	166
Exchange adjustment	-	(25)	-	-	-	(25)
At 31 December 2017	**10,590**	**5,432**	**4,527**	**2,874**	**21**	**23,444**
Amounts written off						
At 1 January 2016	-	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
Amortisation expense	-	473	613	318	-	1,404
Exchange adjustment	-	(4)	-	-	-	(4)
At 31 December 2017	**-**	**2,304**	**2,548**	**1,131**	**21**	**6,004**
Net book value						
At 31 December 2016	11,015	1,939	2,592	2,061	-	17,607
At 31 December 2017	**10,590**	**3,128**	**1,979**	**1,743**	**-**	**17,440**

A fair value adjustment was identified within 12 months of the acquisition of Notocord in respect of the current tax liability which was overstated by £0.4m. This fair value adjustment has reduced the goodwill arising on acquisition from £0.9m to £0.5m during the year ended 31 December 2017.

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 (2016: £2.3m) with accumulated amortisation of £1.2m (2016: £0.9m). Software additions for the year include £1.4m relating to internal development (2016: £0.8m).

Impairment of goodwill

Goodwill amounting to £5.9m (2016: £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 (2016: £0.5m), relates to a CGU, being the Instem Scientific Limited business acquired on 3 March 2011. Goodwill amounting to £2.5m (2016: £2.5m), relates to a CGU, being the Instem Clinical Holdings Limited business acquired on 10 May 2013. Goodwill amounting to £0.7m (2016: £0.7m) relates to a CGU, being the Perceptive Instruments Limited business acquired on 21 November 2013. Goodwill amounting to £0.5m (2016: £0.5m) relates to a CGU, being the Samarind Limited business acquired on 27 May 2016. Goodwill amounting to £0.5m (2016: £0.9m) relates to a CGU, being the Notocord business acquired on 2 September 2016.

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.

10. Intangible Assets (continued)

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 pre-tax 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 2017, a pre-tax discount rate of 8.9% (2016: 9.1%) was used in the value-in-use calculation based on the Group's cost of capital.

Projected cash flows were based on detailed profit and cashflow projections through to 2018 with a 2.5% assumption of growth beyond 2018. 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 390%, for the Instem Scientific CGU by 848%, for Instem Clinical CGU by 353%, Perceptive Instruments CGU by 477%, Samarind CGU by 504% and Notocord CGU by 228%. 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 29%, or a reduction in certain revenues of in excess of 11%, would result in the recoverable amount of the Instem LSS CGU being equal to its carrying amount. An additional increase of 38% in the Instem Scientific discount rate, or a reduction in revenues of 3% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 37% in the Instem Clinical discount rate, or a reduction in revenues of 10% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 51% in the Perceptive Instruments discount rate, or a reduction in revenues of 6% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 54% in the Samarind discount rate, or a reduction in revenues by 9% 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 13% 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.

11. Investments

Company	£000
Cost at beginning of year	28,426
Additions	285
At end of year	**28,711**

At the end of the year the company has seven wholly-owned subsidiaries and eleven 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

11. Investments (continued)

Company	Registered Address	Activity	Ownership
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
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
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
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.

12. Property, Plant and Equipment

Group	Short leasehold property £000	IT hardware & software £000	Total £000
Cost			
At 1 January 2016	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
Additions	-	117	117
Disposals	-	(259)	(259)
Exchange adjustment	(1)	(22)	(23)
At 31 December 2017	**78**	**893**	**971**
Depreciation			
At 1 January 2016	41	1,814	1,855
Acquisitions	-	73	73
Depreciation expense	14	142	156
Disposals	(1)	(1,382)	(1,383)
Exchange adjustment	3	58	61
At 31 December 2016	57	705	762
Depreciation expense	4	182	186
Disposals	-	(259)	(259)
Exchange adjustment	(1)	(16)	(17)
At 31 December 2017	**60**	**612**	**672**
Net book value			
At 31 December 2016	22	352	374
At 31 December 2017	**18**	**281**	**299**

IT hardware and software includes assets with a net book value of £0.07m (2016: £0.10m) held under finance lease. The depreciation on these assets during the year was £0.03m (2016: £0.03m).

13. Inventories

Group		2017 £000	2016 £000
Raw materials		**14**	27
Work in progress		**15**	889
		29	916

		2017 £000	2016 £000
Total gross inventories		**29**	916

14. Trade and Other Receivables

Group		2017 £000	2016 £000
Trade receivables		**6,104**	5,104
Amounts recoverable on contracts		**2,389**	894
Prepayments and accrued income		**977**	901
		9,470	6,899
Company			
Amounts owed by group companies		**2,192**	2,217
Other receivables		**54**	84
		2,246	2,301

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		2017 £000	2016 £000
At beginning of year		**94**	232
Increase in provision for impairment		**64**	9
Receivables written off		**(31)**	-
Reversal of provision for impairment		**(54)**	(147)
At end of year		**73**	94

The average credit period taken on sale is 88 days (2016: 68 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.

14. Trade and Other Receivables (continued)

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

				Debt age		
Group 2017		**Current**	**0-30 days**	**31-60 days**	**Over 60 days**	**Total**
Trade receivables/Amounts recoverable on contracts						
Value (£000)		**5,011**	**1,806**	**1,012**	**664**	**8,493**
%		**59**	**21**	**12**	**8**	**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		**2017 £000**	2016 £000
Sterling		**3,928**	2,511
Euro		**576**	784
US Dollar		**4,551**	3,056
Renminbi		**288**	488
Other		**127**	60
		9,470	6,899

15. Financial Asset

Group and Company	2017 £000	2016 £000
Forward foreign exchange contract	-	10

As at 31 December 2016 the Group and Company had one short term forward foreign exchange contract to purchase Euros at a guaranteed rate. The above represented the fair value of the contract at 31 December 2016. There were no contracts in place as at 31 December 2017.

16. Cash and Cash Equivalents

Group	2017 £000	2016 £000
Cash at bank	**12,062**	13,187
Bank overdraft	**(8,998)**	(8,998)
	3,064	4,189
Company		
Cash at bank	**1,036**	2,221

The Group's 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 Group 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	2017 £000	2016 £000
Sterling	**(1,539)**	(1,138)
Euro	**683**	1,687
US Dollar	**3,034**	2,329
Renminbi	**828**	1,243
Other	**58**	68
	3,064	4,189
Company		
Sterling	**1,036**	1,165
Euro	**-**	1,056
	1,036	2,221

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

17. Trade and Other Payables

	2017 £000	2016 £000
Group - Current		
Trade payables	**548**	632
Other taxation and social security costs	**410**	276
Accruals	**1,819**	1,762
	2,777	2,670
Company - Current		
Trade payables	**35**	78
Amounts owed to group companies	**3,659**	4,125
Accruals	**182**	129
	3,876	4,332

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

Group	**2017 £000**	2016 £000
Sterling	**1,547**	1,595
Euro	**246**	272
US Dollar	**918**	725
Renminbi	**15**	31
Other	**51**	47
	2,777	2,670
Company		
Sterling	**3,876**	4,332

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 2017	**Current**	**0-30 days**	**31-60 days**	**Over 60 days**	**Total**
Trade and other payables (£000)	**2,370**	**369**	**34**	**4**	**2,777**
%	**86**	**13**	**1**	**-**	**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

18. Current Taxation

The Group current tax receivable of £1.3m and payable of £0.2m (2016: payable of £0.4m) represents the amount of income taxes receivable and payable in respect of current and prior years.

The Company current tax payable is £nil (2016: £nil).

19. Financial Liabilities

Group 2017	**Total £000**	**Less than one year £000**	**One to two years £000**	**More than two years £000**
Deferred contingent consideration	**188**	**188**	**-**	**-**
Finance lease liabilities	**83**	**32**	**51**	**-**
	271	**220**	**51**	**-**

Company 2017	**Total £000**	**Less than one year £000**	**One to two years £000**	**More than two years £000**
Deferred contingent consideration	**188**	**188**	**-**	**-**

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 £0.2m (2016: £0.6m) in respect of the acquisition of Samarind Limited and £nil (2016: £0.5m) in respect of the acquisition of Notocord Systems S.A.

The estimation of deferred consideration in respect of the acquisition of Samarind Limited and Notocord Systems S.A. as at 31 December 2016 was contingent on performance criteria relating to 2017. As at 31 December 2017 there are no remaining performance criteria.

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 20.

19. Financial Liabilities (continued)

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payment	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Not later than one year	**36**	36	**32**	29
Later than one year and not later than five years	**54**	90	**51**	84
	90	126	**83**	113
Less future finance charges	**(7)**	(13)	**-**	-
Present value of minimum lease payments	**83**	113	**83**	113

Reconcilitaion of liability arising from financing activities		**31 December 2017 £000**	31 December 2016 £000
At the beginning of the year		**113**	145
Repayment of finance leases		**(30)**	(32)
At the end of the year		**83**	113

20. 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.

2017 Group and Company	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Deferred contingent consideration	**-**	**-**	**(188)**	**(188)**

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.

20. Financial Instruments (continued)

The following table shows a reconciliation from the opening balances as at 1 January 2017 to the closing balances as at 31 December 2017 for Level 3 fair value measurements in respect of both the Group and Company.

		Deferred contingent consideration £000
Balance as at 1 January 2017		1,108
Cash repayment in the year		(687)
Satisfied by share consideration		(175)
Unwinding discount*		71
Change in fair value**		(148)
Adjustment in respect of foreign exchange*		19
Balance as at 31 December 2017		188

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

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. 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 (2016: £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 2017, the indications are that the UK bank base interest rate will not materially differ over the next 12 months. On the basis of the net cash position at 31 December 2017 and assuming no other changes occur (such as material changes in currency exchange rates) the change in interest rates will not have a material impact on net interest income/(expense).

20. Financial Instruments (continued)

2017	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Group				
Trade and other receivables	**-**	**-**	**8,493**	**8,493**
Cash and cash equivalents	**-**	**3,064**	**-**	**3,064**
Trade and other payables	**-**	**-**	**(2,367)**	**(2,367)**
Deferred contingent consideration	**-**	**-**	**(188)**	**(188)**
Finance lease	**(83)**	**-**	**-**	**(83)**
	(83)	**3,064**	**5,938**	**8,919**

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

2017	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Company				
Trade and other receivables	**-**	**-**	**2,246**	**2,246**
Cash and cash equivalents	**-**	**1,036**	**-**	**1,036**
Trade and other payables	**-**	**-**	**(3,876)**	**(3,876)**
Deferred contingent consideration	**-**	**-**	**(188)**	**(188)**
	-	**1,036**	**(1,818)**	**(782)**

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	-	-	(4,322)	(4,322)
Deferred contingent consideration	-	-	(1,108)	(1,108)
	-	2,221	(3,129)	(908)

20. 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 (2016: 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 14 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

Liquidity risk

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

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

The Group regularly monitors its available headroom under its borrowing facilities. At 31 December 2017, its £2.0m bank facility was undrawn (2016: £2.0m undrawn).

In respect of the Group's interest-bearing financial liabilities, the table in note 19 includes details at the reporting date of the periods in which they mature.

21. Deferred Tax

Group	**2017 £000**	2016 £000
Deferred tax asset		
Amounts due to be recovered within 12 months	**-**	-
Amounts due to be recovered after 12 months	**300**	947
Total deferred tax	**300**	947

21. Deferred Tax (continued)

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

	2017 £000	2016 £000
At beginning of the year	**947**	663
Net (charge)/credit to income for the year	**(177)**	804
Net (debit)/credit to equity	**(113)**	215
Arising on acquisitions during the year	**-**	(762)
Adjustments in respect of prior years	**(357)**	73
Effect of domestic tax rate change on opening balances	**-**	(46)
At end of the year	**300**	947

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 2016	(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	(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
Credit/(charge) to profit or loss for the year	177	(70)	(56)	(228)	(177)
Debit to equity for the year	-	-	(113)	-	(113)
Adjustments in respect of prior years	-	(133)	-	(224)	(357)
At 31 December 2017	**(658)**	**694**	**638**	**(374)**	**300**

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 2017 were £0.3m (2016: £nil) due to uncertainty over the timing of the recoverability of these losses.

22. Retirement Benefit Obligations

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

Defined contribution pension schemes

Group Personal Pension Plan - the Scheme was created on 31 December 2008. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5%. The employer also contributes to the Scheme for former members of Instem LSS Pension Scheme at rates varying from 5% to 18%. Employer contributions for the year ended 31 December 2017 were £0.46m (2016: £0.57m).

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 2017 were £0.03m (2016: £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 2017 were £0.11m (2016: £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 2017 were £0.02m (2016: £0.02m).

Perceptive Instruments Limited - The Group made contributions to personal pension arrangements of certain employees. 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 2017 employer contributions to these arrangements prior to auto enrollment totalled £nil. (2016: £0.01m)

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 year ended 31 December 2017 the employer made contributions of £0.02m (2016: £0.01m). These arrangements moved to the Group Personal Pension Plan on 1 November 2017.

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.

22. Retirement Benefit Obligations (continued)

The Scheme exposes the Group to a number of risks:

- Investment risk. The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if deficit emerges.

- Interest rate risk. The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.

- Mortality risk. In the event that members live longer than assumed a deficit will emerge in the Scheme.

There were no 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 2017 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.

22. Retirement Benefit Obligations (continued)

	2017 %	2016 %
Discount rate	**2.65**	2.85
Inflation (RPI)	**3.10**	3.30
Rate of increase in salaries	**N/A**	N/A
Rate of increase in pensions in payment	**3.00**	3.00
Rate of increase in pensions in deferment	**3.10**	3.30
Life Expectancy assumption (number of years from the age of 65)	**Years**	Years
Male currently aged 45	**24.3**	24.5
Female currently aged 45	**25.3**	25.8
Male currently aged 65	**23.2**	23.3
Female currently aged 65	**24.1**	24.3

ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	2017 £000	2016 £000
Interest on pension scheme assets	**278**	304
Interest on pension scheme liabilities	**(407)**	(443)
Net finance charge	**(129)**	(139)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	2017 £000	2016 £000
Gains on pension scheme assets in excess of interest	**(686)**	(1,252)
Experience gains on liabilities	**(183)**	-
Gains from changes to demographic assumptions	**(156)**	(133)
Losses from changes to financial assumptions	**361**	2,577
Actuarial (gain)/loss recognised in other comprehensive expense	**(664)**	1,192

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	2017 £000	2016 £000
Opening defined benefit obligation	**14,436**	11,782
Interest cost	**407**	443
Benefits paid	**(316)**	(233)
Experience gain on liabilities	**(183)**	-
Changes to demographic assumptions	**(156)**	(133)
Changes to financial assumptions	**361**	2,577
Closing defined benefit obligation	**14,549**	14,436

22. Retirement Benefit Obligations (continued)

CHANGES IN THE FAIR VALUE OF PLAN ASSETS	2017 £000	2016 £000
Opening plan assets	**9,690**	7,849
Expected return	**278**	304
Return on plan assets less interest	**686**	1,252
Contributions by employer	**461**	518
Benefits paid	**(316)**	(233)
Closing plan assets	**10,799**	9,690

The actual return on plan assets was a positive return of £0.96m (2016: £1.56m).

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2017 £000	2016 £000
Present value of funded obligations	**(14,549)**	(14,436)
Fair value of plan assets	**10,799**	9,690
Deficit	**(3,750)**	(4,746)
Related deferred tax asset	**638**	807
Net pension liability	**(3,112)**	(3,939)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY	2017 £000	2016 £000
Opening net defined benefit liability	**4,746**	3,933
Net interest expense	**129**	139
Remeasurements	**(664)**	1,192
Contributions by employer	**(461)**	(518)
Closing net defined benefit liability	**3,750**	4,746

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	Cumulative 2017 £000	Cumulative 2016 £000
Actual return less expected return on pension scheme assets	**2,048**	1,362
Experience gains and losses arising on scheme liabilities	**(1,628)**	(1,811)
Changes in demographic assumptions	**289**	133
Changes in assumptions underlying the present value of the scheme liabilities	**(5,380)**	(5,019)
Cumulative actuarial loss recognised in other comprehensive expense	**(4,671)**	(5,335)

22. Retirement Benefit Obligations (continued)

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

	2017		2016	
	£000	%	£000	%
Equities	7,468	69	6,959	72
Property	438	4	301	3
Bonds	1,104	10	1,232	13
Corporate Bonds	1,028	10	167	2
Cash	553	5	424	4
Other	208	2	607	6
	10,799	100	9,690	100

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

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of defined benefit obligation	(14,549)	(14,436)	(11,782)	(11,405)	(10,529)
Fair value of plan assets	10,799	9,690	7,849	7,524	7,023
Deficit	(3,750)	(4,746)	(3,933)	(3,881)	(3,506)
Experience gains/(loss) on plan liabilities	156	-	-	(138)	-
Return on plan assets less interest	686	1,252	(136)	(7)	612

The Group expects to contribute £0.5m to its defined benefit plan in the next financial year (2016: £0.5m).

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	(1,279)
Minus 0.50% pa	1,460
INFLATION	
Plus 0.50% pa	1,229
Minus 0.50% pa	(1,104)
LIFE EXPECTANCY	
Plus 1 year	(485)
Minus 1 year	490

23. Provision for Liabilities and Charges

	2017 £000	2016 £000
At 1 January	-	-
Increase in provision during the year	**250**	-
At 31 December	**250**	-

During the year the Group made a provision of £0.25m in respect of historical contract disputes.

24. Share Capital

Allotted, called up and fully paid	2017 £000	2016 £000
At 1 January		
15,771,398 ordinary shares of 10p each (2016: 13,043,774)	**1,577**	1,304
115,262 (2016: 2,727,624) ordinary shares of 10p each, issued during the year	**12**	273
At 31 December	**1,589**	1,577

On 5 June 2017, the Company issued 88,608 new ordinary shares in respect of partly satisfying the deferred consideration of the acquisition of Samarind Limited. In addition, 26,654 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.

	2017			2016		
	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	**1,094**	**15,831**	**6.9**	1,058	15,302	6.9
Potentially dilutive shares	**-**	**328**	**-**	-	324	-
Earnings per share - Diluted	**1,094**	**16,159**	**6.8**	1,058	15,626	6.8

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.

	2017			2016		
	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	**2,234**	**15,831**	**14.1**	1,752	15,302	11.5
Potentially dilutive shares	**-**	**328**	**-**	-	324	-
Earnings per share - Diluted	**2,234**	**16,159**	**13.8**	1,752	15,626	11.2

Reconciliation of adjusted profit after tax:	**2017 £000**	2016 £000
Reported profit after tax	**1,094**	1,058
Non-recurring costs/(income)	**443**	(619)
Amortisation of acquired intangibles	**931**	667
Foreign exchange differences on revaluation of inter-group balances	**(234)**	646
Adjusted profit after tax	**2,234**	1,752

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 (2016: £nil).

28. Operating Leases Payable

		2017 £000	2016 £000
Minimum lease payments under operating leases recognised as an expense in the year		**582**	520

At the reporting date, the Group has future aggregate minimum lease payments, which fall due as follows:		2017 £000	2016 £000
Land and buildings			
Within one year		**461**	444
In the second to fifth year inclusive		**1,369**	778
After five years		**368**	236
Plant and machinery			
Within one year		**24**	10
In the second to fifth year inclusive		**20**	13
		2,242	1,481

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 the office buildings contain 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 £0.7m (2016: £0.6m). The net intercompany balances due from the Company at the year-end totalled £1.5m (2016: due from: £1.9m).

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:	**2017 £000**	2016 £000
Group and Company		
Fees for services provided as Non-Executive Directors		
Salaries and short-term benefits	**90**	82
Post-employment retirement benefits	**-**	-
Employers' national insurance & social security costs	**10**	9
Share based payment charge	**-**	-
	100	91
Group		
Executive Directors		
Salaries and short-term benefits	**340**	335
Post-employment retirement benefits	**40**	40
Employers' national insurance & social security costs	**24**	25
Share based payment charge	**73**	105
	477	505
Group		
Other key management		
Salaries and short-term employee benefits	**1,029**	567
Post-employment retirement benefits	**51**	49
Employers' national insurance & social security costs	**67**	55
Share based payment charge	**66**	84
	1,213	755

The Company paid £0.05m (2016: £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 (2016: £nil).

In addition, the Company paid £0.03m (2016: £0.03m) 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 £nil (2016: £0.009m).

In November 2016, the Group made a 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 (2016: £0.07m).

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 (2016: £9.0m).

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

SECRETARY
N J Goldsmith

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