



ANNUAL
REPORT
2018




500

More than 500 clients

Instem has over 500 customers with its blue chip customer base consisting of the leading pharmaceutical, medical device, chemical and contract research organisations as well as academic, government and privately funded research institutions across many sites worldwide. These include all of the top 25 pharmaceutical and biotech companies such as GlaxoSmithKline and AstraZeneca.

CONTENTS

HIGHLIGHTS	6
CHAIRMAN'S STATEMENT	8
STRATEGIC REPORT	10
BOARD OF DIRECTORS	14
CORPORATE GOVERNANCE STATEMENT	16
DIRECTORS' REPORT	20
DIRECTORS' REMUNERATION REPORT	22
DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS	25
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INSTEM PLC	26
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	30
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31
COMPANY STATEMENT OF FINANCIAL POSITION	32
CONSOLIDATED STATEMENT OF CASH FLOWS	33
COMPANY STATEMENT OF CASH FLOWS	34
CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY	35
ACCOUNTING POLICIES	36
NOTES TO THE FINANCIAL STATEMENTS	46
DIRECTORS AND ADVISORS	81



As the number one global provider, we estimate that approximately half of the world's preclinical drug safety data has been collected over the last 20 years using Instem software.



Powerful Solutions • Unique Perspective • Global Coverage

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.

HIGHLIGHTS

With increasing momentum in the business from recent contract wins and the growing pipeline, we are confident about the outlook for the Group for 2019 and beyond.

FINANCIAL HIGHLIGHTS

- Revenues increased 8% to £22.7m (2017 restated*: £21.1m)
 - Software as a Service (SaaS) revenues increased 25% to £5.5m (2017: £4.4m)
 - Recurring revenues (annual support and SaaS) increased 6% to £13.7m (2017: £12.9m)
- Adjusted EBITDA** of £4.1m (2017 restated*: £2.4m)
- Reported profit before tax of £1.7m (2017 restated*: £0.3m)
- Basic earnings per share of 9.2p (2017 restated*: 4.1p)
- Fully diluted earnings per share of 8.7p (2017 restated*: 4.0p)
- Adjusted*** fully diluted earnings per share of 15.5p (2017 restated*: 11.0p)
- Net cash balance as at 31 December 2018 of £3.6m (2017: £3.1m)

OPERATIONAL HIGHLIGHTS

- SEND outsourced services contract wins with two top five global non-clinical Contract Research Organisations (“CROs”) each worth in excess of £1m
- Growing shift towards a SaaS based delivery and revenue model
- Contract win with leading Fortune 500 Company which adopted Samarind RMS solution for its worldwide medical products regulatory tracking system
- 500 additional Provantis® users licensed by our largest CRO client

*Restated due to the adoption of IFRS 15 and its impact on revenue recognition that accounts for £0.4m of additional revenue and £0.3m of EBITDA in FY18, which had previously been recognised in FY17.

**Earnings before interest, tax, depreciation, amortisation and non-recurring costs.

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



We are very pleased with the performance of the business during 2018 with regulatory requirements delivering the expected significant increase in demand for our technology enabled outsourced services.

Growth was also particularly strong in the Asia-Pacific region, with bookings up 37% on the prior year, primarily attributable to the continuing funding of pharmaceutical Research & Development by the Chinese government.

With increasing momentum in the business from recent contract wins and the growing pipeline, we are confident about the outlook for the Group for 2019 and beyond.

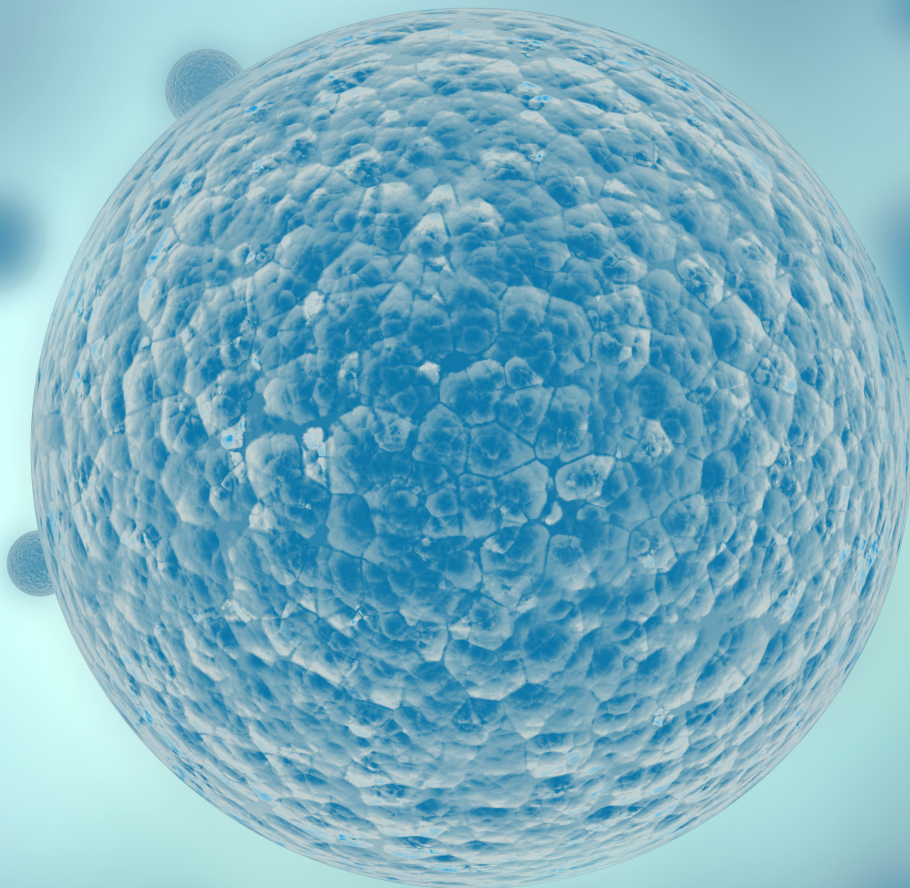
While our strategy remains focused on Instem's strong organic revenue growth, expanding operational gearing and improving positive cashflow, management will continue to consider complementary acquisition targets to further develop our position as a market leading provider of IT solutions to the global life sciences market.

P J Reason
Chief Executive

“We remain focused on achieving organic profitable growth, expanding margins and improving positive cashflow.”

D Gare

Non-Executive Chairman



CHAIRMAN'S STATEMENT

I am pleased to report a further year of profitable growth for Instem, with improving revenue, earnings and expanding operating margins.

All parts of the business: Study Management; Informatics; and Regulatory Solutions; made a positive contribution to the performance of the Group. Importantly, our loyal customer base contributed increased recurring revenue from support & maintenance contracts and SaaS subscriptions, as well as providing very encouraging levels of repeat business for our technology enabled outsourced services.

RESULTS AND IMPACT OF IFRS 15

The Group is now required to report its financial results under the new IFRS 15 "Revenue from contracts with customers" accounting standard. As a consequence, certain adjustments have been made to both the prior year 2017 and 2018 accounts resulting in £0.6m of revenue and £0.5m of EBITDA previously recognised in 2017 spread into future years, of which £0.4m of revenue and £0.3m of EBITDA has been recognised in the 2018 accounts. Prior to the adjustments the 2018 results would have been revenues of £22.3m (2017: £21.7m) and EBITDA of £3.7m (2017: £3.0m). Our actual reported results for 2018, post adjustments, are therefore revenues of £22.7m (2017: £21.1m) and EBITDA of £4.1m (2017: £2.4m).

The Board believes IFRS 15 will have no material effect on the Group's 2019 expected reported performance.

CASH

The end of the year cash balance increased to £3.6m, which was less than previously expected, due to a number of delayed customer payments that have now been received.

FIRM FOUNDATIONS

Organic growth initiatives and complementary acquisitions completed over the past several years mean we now have a broad-based product portfolio serving several adjacent market segments within the global life sciences sector. These diversified revenue sources improve both the robustness of the business and the quality of our earnings.

Nevertheless, we continue to invest in our personnel and operations to ensure that we are fully prepared for future organic and acquisitive growth opportunities.

STRATEGIC DIRECTION

Looking forward, we have several important elements to our strategy which will be the drivers of future growth

and earnings, each of these showed progress in the year:

- A focus on materially increasing SaaS based revenues. We intend to achieve this through a combination of new business wins directly onto our SaaS platform and accelerating the conversion of on-premise customers to SaaS, which will increase margins. SaaS based revenue increased 25% to £5.5m in the period;
- The expansion of "technology enabled outsourced services", where 2018 revenue was £3.3m (2017: £1.1m) and new business orders were £6.5m:
 - We remain excited by the potential for our SEND services business, where the Group has a market leading offering and continues to secure the majority of contracts awarded. SEND outsourced services new business orders increased over 500% to £5.8m during the period;
 - Instem's KnowledgeScan augmented intelligence platform has now gained industry recognition for its Target Safety Assessment solution. KnowledgeScan new business orders increased 30% to £0.7m during the period; and
- Expansion of our market penetration across our existing client base, cross selling additional software and services.

It was a particularly successful year for our Study Management solutions. This was highlighted by the purchase of 500 additional Provantis licenses by our largest client, Charles River Laboratories. Our Clinical business continued to absorb substantial development resources, leading to a major new release of Alphadas in early March 2019 addressing some significant client requirements.

SUMMARY

I am pleased with our progress in 2018 and believe that the foundations have now been laid for further operational and financial progress in 2019 and beyond.

Whilst management will continue to pursue complementary acquisition targets to further develop our position as a market leading provider of IT solutions to the global life sciences industry, we remain focused on achieving organic profitable growth, expanding margins and improving positive cashflow.

Finally, I should note that as a global business, with significant recurring revenues and with the majority of our business outside Europe, we believe that the impact of Brexit, whatever the outcome, should be minimal.

D Gare

Non-Executive Chairman

STRATEGIC DEVELOPMENT

The period under review was one of solid progress across the Group, with the anticipated strong growth in technology enabled outsourced services and a higher than expected transition of clients to SaaS deployment. The accelerated growth in SaaS revenue, in line with our strategy, meant that there were fewer new perpetual software licenses than planned and correspondingly lower annual support and maintenance fees. Total revenue growth was therefore slightly lower than anticipated, but careful cost control ensured that we met our full-year EBITDA target and enhanced margins.

We have now largely completed the investment in our technology and resources to enable the Group to secure a leading share of the FDA's (Food and Drug Administration) mandated SEND (Standard for Exchange of Non-clinical Data) market and to cost effectively deliver high quality results using a blend of resources in the UK, US and India.

Certification to the Information Security Management Standard (ISO27001) in 2018 ensures compliance with EU General Data Protection Regulation (GDPR) and is an important competitive differentiator for the Group.

Completion of a group-wide deployment of Oracle NetSuite provides a key platform for operational and financial management, enabling the Group to scale efficiently within the highly regulated markets in which it operates.

MARKET REVIEW

The pharmaceutical industry continues to represent a significant proportion of our total life sciences market and the record numbers of drugs in the R&D pipeline (a 6% increase over the prior year) and a steadily increasing number of world-wide pharmaceutical companies has provided a positive business environment. The specific customer markets in which Instem operates remained particularly strong in 2018, with record numbers of drugs in the earlier stages of the R&D lifecycle. This underpins robust recurring SaaS and software maintenance contract renewal rates as well as bolstering the pipeline for new business revenue.

Growth was also particularly strong in the Asia-Pacific region, which represented 14% of total revenue in the period, significantly helped by the continuing substantial funding of pharmaceutical R&D by the Chinese government.

STUDY MANAGEMENT

The majority of new business deals in this area were of modest size, as expected, with the exception of a significant increase in Provantis user licenses from our largest CRO client. There was generally solid order volume, particularly for Provantis, our market leading non-clinical software suite for organisations engaged in non-clinical safety studies, where additional users, modules and upgrade projects underpinned the good momentum.

This area contributes the majority of our annual recurring income and renewal rates remained high. It also provides the greatest opportunity for conversion of existing clients from on-premise to SaaS deployment and the internal project to accelerate this transition is building momentum. During 2018 the SaaS transition appealed to all types of customers. The move of long-standing clients to SaaS deployment, including a top three chemical company and another existing top 20 pharma client, both in addition to upgrades to Provantis version 10, provides further evidence that any prior reluctance to make this move is evaporating.

Provantis has once again dominated the Chinese market with existing clients expanding and adding both users and modules.

Investment to enhance Instem's early phase clinical product, Alphadas, was increased in the period in response to current client needs. These enhancements will have wider market appeal going forward.

INFORMATICS

New business orders for KnowledgeScan, which can reduce the traditional cost of Target Safety Assessment (TSA) development by up to 50%, increased by 30% year-on-year, mainly from repeat customers, which is demonstrative of a strong and recurring revenue stream.

By outsourcing all, or augmenting some, of a customer's TSA projects to Instem, clients are able to conduct more safety evaluations without increasing resources or costs. Driven by leading stage technology, including well proven artificial intelligence, Instem's KnowledgeScan TSA service offers consistent, systematic and efficient processes that produce high quality reliable results.

REGULATORY SOLUTIONS

Regulatory Information Management

In June, we announced that a leading Fortune 500 Company had adopted Instem's Samarind RMS solution for its worldwide medical products regulatory tracking system. The contract is worth approximately US\$750,000, incorporating both perpetual license and SaaS revenue streams, with c. 80% of the contract being recognised in 2018 and with annual recurring revenue of US\$169,000.

Samarind RMS provides medical device and pharmaceutical companies with a smarter way to manage their Product Information, facilitating initial marketing authorisation and supporting ongoing regulatory compliance. The product is optimised to enable these companies to register and track their regulated products worldwide by maintaining a single integrated database of all relevant information, which is then used to update regulators as products change over time. The comprehensive functionality provided by Samarind RMS enables customers to systematically define and execute complex regulatory activities across a globally dispersed workforce whilst providing a single place to find, analyse and act on a wealth of product and regulatory information.

SEND

The Regulatory Solutions business performed well in 2018 following the December 2017 FDA mandate of the Standard for the Exchange of Non-clinical Data. SEND technology enabled outsourced services was particularly strong with new order value in 2018 over 500% higher than the prior period.

To help manage this additional workflow effectively, Instem recruited an additional 29 staff to its outsourced services team in 2018; 21 in India, four in the US and four in the UK, making 47 in total globally, substantially more than our competitors. While expansion will continue in 2019, the rate of recruitment is moderating as the existing team becomes fully billable and our technology platform and processes are optimised and leveraged to increase study throughput.

FINANCIAL REVIEW

Instem's revenue model consists of perpetual licence income with annual support and maintenance contracts, professional fees, technology enabled outsourced services fees and SaaS subscriptions.

The Group is now required to report its financial results under the new IFRS 15 "Revenue from contracts with customers" accounting standard. As a result, certain adjustments have been made to both the prior year 2017

and 2018 accounts, resulting in £0.6m of revenue and £0.5m of EBITDA previously recognised in 2017 spread into future years of which £0.4m of revenue and £0.3m of EBITDA has been recognised in the 2018 accounts. Prior to the adjustments the 2018 results would have been revenues of £22.3m (2017: £21.7m) and EBITDA of £3.7m (2017: £3.0m). The actual reported results for 2018, post adjustments, are revenues of £22.7m (2017: £21.1m) and EBITDA of £4.1m (2017: £2.4m). After a review during 2018 of the Group's revenue recognition policy the Group concluded it was compliant with the new standard (IFRS 15) for recognising the majority of its revenues.

Three contracts for sales of software licences were identified that required an amendment to the accounting treatment that had been originally applied to comply with the new standard, two where the licence revenue had been recognised in full in 2017 and one which had accelerated revenue in 2018. The nature of the adjustments had the effect of spreading the revenue from the respective licence sales over the contract period on a straight-line basis rather than taking all the licence income to profit at the point of shipment. A more thorough explanation of the impact on revenue and EBITDA in 2018 and 2017 from adopting IFRS 15 in 2018 and the corresponding updated accounting policy on revenue recognition applied during 2018 is set out in the accounting policies. All prior period comparisons that have been impacted by IFRS 15 have been restated and designated as such.

A key performance indicator of the Group is recurring revenue. During the year, the total recurring revenue, from support & maintenance contracts and SaaS subscriptions, increased 6% to £13.7m (2017: £12.9m), representing 60% of total revenue (2017: 61%).

Operating costs reflected prudent control whilst investing in the future by continuing to build the infrastructure to support the Group's expansion plans, which included the successful implementation of Oracle NetSuite, a new financial accounting and reporting system. The Group benefited from a full year of the cost savings realised during 2017 with overall costs remaining flat year on year despite the growth in revenues, thus contributing to a much-improved profit performance.

Earnings before interest, tax, depreciation and amortisation and non-recurring items ("Adjusted EBITDA") for the year was £4.1m (2017: £2.4m as restated) after adding the net positive impact of the IFRS 15 adjustments. The EBITDA margin increased in the year to 17.8% from 11.5% in 2017.

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 £2.8m (2017: £1.4m as restated). The unadjusted reported profit before tax for the year was £1.7m (2017: £0.3m).

The non-recurring costs in the year included £0.4m of legal and professional fees, plus a £0.1m estimated provision created for the cost of GMP equalisation in the Group's defined benefit pension scheme. The actual cost to the scheme is being calculated by the scheme's pension advisers with the scheme's trustees and will be reflected in a future actuarial calculation of the scheme's liabilities.

Development costs incurred during the year were £3.1m (2017: £3.3m), of which £1.5m (2017: £1.5m) was capitalised. The Group claimed research and development tax credits in respect of the prior year 2017 of £0.5m (2017 in respect of 2016: £0.6m). At the year-end the Group had estimated available trading tax losses to offset future trading profits of £2.9m.

Basic and fully diluted earnings per share calculated on an adjusted basis were 16.4p and 15.5p, respectively (2017: 11.3p basic and 11.0p fully diluted, as restated). The reported basic and fully diluted earnings per share were 9.2p and 8.7p, respectively (2017: 4.1p basic and 4.0p fully diluted).

The Group generated net cash from operating activities of £2.2m (2017: £1.4m), assisted by a net cash inflow on tax following the R&D tax credit claim. The Group had net cash reserves of £3.6m at 31 December 2018, compared with £3.1m as at 31 December 2017. The Group paid the previously flagged final instalment of £0.2m in respect of deferred consideration during the year, which extinguished the remaining liability in respect of prior period acquisitions. The Group continued to invest in its comprehensive suite of software products through its own development teams, representing the majority of the £1.5m spent on intangible assets in the year (2017: £1.5m).

The Group's legacy defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008. During the year the April 2017 actuarial valuation was concluded and the impact was reflected in the IAS19 calculation at 31 December 2018. The valuation resulted in a substantial net decrease of £1.6m in the funding deficit moving from £3.8m in

2017 to £2.2m in 2018, the main impact (circa £1m) arising from the valuation of certain liabilities on a CPI rather than RPI basis following Counsel's ruling. This represents a substantial benefit to the Group and has been reflected in the future agreed cash contributions which will remain around an annual level of £0.5m payable through to October 2024, by when the funding liability is scheduled to be eliminated. The overall deficit at the year-end stood at £2.2m (2017: £3.8m), represented by the fair value of assets of £10.4m (2017: £10.8m) and the present value of funded obligations of £12.6m (2017: £14.5m). The next triennial valuation will be calculated as at 5 April 2020.

UPDATE ON HISTORIC CONTRACT DISPUTE

As originally highlighted in the preliminary results announcement for the year ended 31 December 2017, released on 26 March 2018, the Group made a cost provision related to historical contract disputes.

A dispute, which does not affect ongoing operations of the Group, is now being heard by the German courts, with the initial hearing held on 22 January 2019. Instem has taken legal advice and is defending the action. The Group strongly believes that the claim should be dismissed. Notwithstanding this, the cost provision made in 2017 will be maintained in the 2018 accounts. Further announcements will be made as and when appropriate.

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 also generates material cash reserves through its Chinese subsidiary that are not readily available to the UK group at short notice and as such the Group has to maintain sufficient working capital headroom to accommodate any delays in repatriating cash from China.

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

The Group manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs. The Group regularly monitors its available headroom under its borrowing facilities. At 31 December 2018, its £0.5m bank facility was undrawn (2017: £2.0m facility undrawn).

Brexit – whilst the outcome of Brexit remains uncertain, there is always the associated risk of adverse implications for the business, including the impact on exchange rate fluctuations. However, the Group has experienced no negative impact on its business to date and does not expect to do so in the future. Instem operates in a global market with a multinational customer base and its revenues and costs spread around the globe without over reliance on Europe or exposure to it. The 2016 acquisition of Notocord in France provides the Group with a presence in Europe that we expect to help mitigate any impact that might arise from the Brexit outcome. The Group will continue to monitor the progress of the Brexit situation and its possible effects.

OUTLOOK

We are very pleased with the performance of the business during 2018 with regulatory requirements delivering the expected significant increase in demand for our technology enabled outsourced services. Growth was also particularly strong in the Asia-Pacific region, with bookings up 37% on the prior year, primarily attributable to the continuing funding of pharmaceutical Research & Development by the Chinese government.

With increasing momentum in the business from recent contract wins and the growing pipeline, we are confident about the outlook for the Group for 2019 and beyond.

While our strategy remains focused on Instem's strong organic revenue growth, expanding operational gearing and improving positive cashflow, management will continue to consider complementary acquisition

targets to further develop our position as a market leading provider of IT solutions to the global life sciences market.

On behalf of the Board

P J Reason

Chief Executive

25 April 2019

BOARD OF DIRECTORS



Non-executive Chairman

David Gare

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.



Chief Executive Officer

Phil Reason

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.



Chief Financial Officer

Nigel Goldsmith

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.



Non-executive Director

Mike McGoun

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.



Non-executive Director

David Sherwin

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.

CORPORATE GOVERNANCE STATEMENT

In accordance with AIM Notice 50 issued by the London Stock Exchange, 8 March 2018, the Group has adopted the Corporate Governance Guidelines for Small and Medium Size Quoted Companies published by the Quoted Companies Alliance (the QCA Code). The main features of the Group's corporate governance procedures, in relation to the 10 Principles of the QCA Code, are set out in the full *QCA Code Compliance* at www.investors.instem.com/corporate/governance.php

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.

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 has met once during the year

and may meet at 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; 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;
- b. 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;
- c. 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;
- d. considers all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditor;
- e. reviews the Board's statement on internal reporting systems and keeps the effectiveness of such systems under review; and
- f. considers all other relevant findings and audit programmes of the Group.

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.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

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

No. of meetings attended / No. of meetings invited to attend				
	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
P J Reason	12/12	1/1	2/2	0/0
N J Goldsmith	12/12	1/1	1/1	0/0
Non-Executive Directors				
D Gare	12/12	1/1	2/2	1/1
D M Sherwin	12/12	1/1	2/2	1/1
M F McGoun	12/12	1/1	2/2	1/1

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:

- 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;
- 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;
- 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;

- demonstrates to the Group's shareholders that the remuneration of the executive directors is set by an independent committee of the Board; and
- 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:

- investigate any activity within its terms of reference;
- seek any information it requires from any employee of the Group;
- 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
- 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
- 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

*The Board
recognises
its overall
responsibility
for the Group's
systems of internal
control and for
monitoring their
effectiveness.*



DIRECTORS' REPORT

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2018.

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

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

REVIEW OF THE BUSINESS

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 and the Strategic Report on pages 8 to 13.

STRATEGIC REPORT

The Company has chosen in accordance with Companies Act 2006, section 414C (11) to set out in the Company's strategic report on pages 10 to 13 information required to be contained in the Directors' Report by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the Directors' Report.

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 22 to 24.

DIRECTORS AND THEIR INTERESTS

The interests of the directors who held office at 31 December 2018 and up to the date of this report (2017: as at 12 April 2018) were as follows:

	2018 No. of Shares	2017 No. of Shares
D Gare	578,427	1,258,427
D M Sherwin	1,180,066	1,380,066
P J Reason	685,287	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 22 to 24.

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. Group values are communicated and reinforced on a regular basis. These values, known by the acronym RECIPE, are Respect, Empowerment, Creativity, Integrity and Passion leading to Enjoyment in our working lives. These values drive the Group's culture.

POLITICAL DONATIONS

The Group made no political donations in 2018 or 2017.

FINANCIAL INSTRUMENTS

The Group's objectives and policies on financial instruments are set out in note 21 to the financial statements.

INDEMNITY OF OFFICERS AND DIRECTORS

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 23 May 2019 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

25 April 2019

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

REMUNERATION COMMITTEE

The Remuneration Committee ('the Committee') is composed entirely of non-executive directors. The Committee was formed upon the public listing of the Company on 13 October 2010. The Chairman of the Committee is M F McGoun. The terms of reference for the Committee are to determine the Group's policy on executive remuneration and to consider and approve the remuneration packages for directors and key executives of the Group, subject to ratification by the Board. During the year, the Committee met on two occasions. Full details of the elements of each director's remuneration are set out on the following page. Details of share-based payment are shown in note 9 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 2018 (2017: £nil).

PENSIONS

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

BENEFITS

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

SERVICE CONTRACTS

The Executive directors have contracts with 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. M F McGoun has been remunerated through a service company, Noble Adamson Limited, for 7 months during 2018.

The emoluments paid or payable to directors in respect of the year ended 31 December 2018 were as follows:

	Salary and Fees	Bonus	Benefits	Pension	2018 Total	2017 Total
Executives						
P J Reason*	207	-	7	29	243	246
N J Goldsmith	110	-	11	12	133	134
Non-executives						
D Gare	60	-	-	-	60	60
D M Sherwin	30	-	-	-	30	30
M F McGoun	30	-	-	-	30	30
Total	437	-	18	41	496	500

* The remuneration in respect of P J Reason is payable in US Dollars and translated at the average rates as disclosed on page 40.

DIRECTORS' AND EMPLOYEES' SHARE OPTIONS

	Exercise price (£)	Issue date	Held at 31 Dec 2017	Granted during year	Exercised during year	Lapsed during year	Held at 31 Dec 2018
P J Reason Ordinary shares	1.750	13/10/2010	187,427	-	-	-	187,427
	0.900	14/01/2013	23,429	-	-	-	23,429
	0.100	29/07/2015	93,750	-	-	-	93,750
	NIL	22/02/2018	-	80,000	-	-	80,000
							384,606
N J Goldsmith Ordinary shares	2.215	29/11/2011	40,000	-	-	-	40,000
	1.760	07/02/2012	20,000	-	-	-	20,000
	0.900	14/01/2013	15,000	-	-	-	15,000
	0.100	29/07/2015	62,500	-	-	-	62,500
	NIL	22/02/2018	-	80,000	-	-	80,000
							217,500
Employees Ordinary shares	1.750	13/10/2010	253,026	-	(25,771)	-	227,255
	2.220	03/03/2011	93,844	-	-	-	93,844
	2.220	17/10/2011	14,667	-	-	-	14,667
	0.900	14/01/2013	44,646	-	(5,500)	-	39,146
	0.100	11/02/2015	40,584	-	-	-	40,584
	0.100	29/07/2015	125,000	-	-	-	125,000
	0.100	21/11/2015	25,258	-	-	-	25,258
	0.100	27/05/2016	21,599	-	-	(6,479)	15,120
	0.100	19/09/2016	22,500	-	-	-	22,500
	0.100	03/05/2017	15,000	-	-	-	15,000
	NIL	22/02/2018	-	240,000	-	-	240,000
0.100	30/07/2018	-	8,446	-	(3,378)	5,068	
							863,442
Total			1,098,230	408,446	(31,271)	(9,857)	1,465,548

DIRECTORS' REMUNERATION REPORT (CONTINUED)

On 20th February 2019 it was announced that certain directors and employees of the Company had exercised share options over 235,339 ordinary shares of 10p each in the Company. These included 40,000 options in respect of N J Goldsmith and 93,750 options in respect of P J Reason.

For the two directors, N J Goldsmith and P J Reason, all options held at 31 December 2018 that had been issued up to and including 29th July 2015 had vested. The awards made on 22 February 2018 vest over three years at 25% on the first anniversary of the award date, 25% on the second anniversary of the award date and 50% on the third anniversary of the award date, subject in each year to the Company achieving and sustaining certain share price targets.

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 2018 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 2018 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 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 group and parent company 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

GROUP KEY AUDIT MATTERS

IFRS 15 TRANSITION

(Refer to pages 36-37 regarding the accounting policy in respect of the adoption of IFRS15 (Included in the Basis of Preparation section) and notes 3 & 4 to the financial statements on pages 49-50)

The risk

This was considered to be one of most significant matters in the audit and therefore determined to be a key audit matter because of the risk that the group has incorrectly applied the principles of the new standard

and considered its impact in respect of the change in standards on prior year financials.

Our response

We have obtained management's considerations in respect of the transition impact to revenue recognition. We have tested a sample of customer revenues back to signed agreements and the accounting standards for the revenue recognition. We have reviewed managements support for judgements made as part of their assessment in applying the revised standard in particular surrounding their assessment that installations are a separate obligation for the majority of contracts and that the free upgrades available to customers on maintenance fees is not deemed to be critical to the function of the licence. We have assessed the evidence provided by management in respect of these judgements in determining our opinion

We have also reviewed management's assessment in respect of direct contract costs associated with the revenues, and whether any capitalisation of these are required.

REVENUE RECOGNITION

Refer to pages 37 to 39 regarding the accounting policy in respect of revenue recognition and note 1 to the financial statements on page 46.

The risk

Appropriate and accurate income recognition is required to be applied by the Directors to ensure that revenue is recognised in accordance with IFRS15 Revenue within the financial statements. There is a risk that revenue could be inappropriately recognised based on the differing recognition policies for product type and because this risk was considered to be one of most significance in the audit it was determined to be a key audit matter. In the year to 31 December 2018 revenue recognised amounted to £23,109k (2017: £21,071k).

Our response

We have conducted substantive analytical work on each revenue stream, tested a sample of customer revenues back to signed agreements, invoice and where applicable proof of delivery. We have assessed the revenue recognition treatment of the sample against IFRS15. We have also considered the accounting policies adopted on contracts based on our understanding of the underlying revenue streams and identified any apparent errors in within the revenue recognition treatment of these. Cut-off testing has also been carried out on key revenue streams in order to identify any areas of material misstatement.

CARRYING VALUE OF GROUP GOODWILL AND ACQUIRED INTANGIBLES

(Refer to page 42 regarding the accounting policy in respect of Goodwill, page 44 in respect of critical judgements and estimates applied by the Directors and note 12 to the financial statements on page 55-56)

The risk

The Group has material levels of Intangible assets arising from previous business combinations. As a consequence, there is a significant risk that these are impaired and need to be written down and it was therefore determined to be a key audit matter. At the 31 December 2018, the carrying value of the Goodwill and acquired Intangibles amounted to £13,524k (2017: £14,312k) 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.

PARENT COMPANY KEY AUDIT MATTERS

CARRYING VALUE OF COMPANY INVESTMENTS

(Refer to page 43 regarding the accounting policy in respect of investments, page 44 in respect of critical judgements and estimates applied by the Directors and note 13 to the financial statements on pages 57-58)

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 and it was therefore determined to be a key audit matter. At the 31 December 2018, the carrying value of these investments amounted to £28,927k (2017: £28,711k) in the Company Statement of Financial Position.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF INSTEM PLC (CONTINUED)

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. Sensitivity testing was performed on balances in respect of significant variables.

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. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £302,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £181,000 which was not significantly changed during the course of the audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £7,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Seven 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 25, 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.

USE OF OUR 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

29 April 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

CONTINUING OPERATIONS	Note	Year ended 31 December 2018 £000	Restated (see note 3) Year ended 31 December 2017 £000
REVENUE	1	22,705	21,071
Operating expenses	2	(18,437)	(18,497)
Share based payment		(216)	(157)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ('EBITDA')		4,052	2,417
Depreciation		(144)	(186)
Amortisation of intangibles arising on acquisition		(788)	(931)
Amortisation of internally generated intangibles		(738)	(473)
PROFIT BEFORE NON-RECURRING COSTS	2	2,382	827
Non-recurring costs	5	(539)	(443)
PROFIT AFTER NON-RECURRING COSTS		1,843	384
Finance income	6	33	186
Finance costs	7	(199)	(318)
PROFIT BEFORE TAXATION		1,677	252
Taxation	11	(207)	390
PROFIT FOR THE YEAR		1,470	642
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that will not be reclassified to profit and loss account:			
Actuarial gain on retirement benefit obligations		1,300	664
Deferred tax on actuarial gain		(221)	(113)
		1,079	551
Items that may be reclassified to profit and loss account:			
Exchange differences on translating foreign operations		(193)	(565)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		886	(14)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,356	628
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		1,470	642
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		2,356	628
Earnings per share from continuing operations			
Basic	26	9.2p	4.1p
Diluted	26	8.7p	4.0p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

Company Registration No. 07148099

	Note	2018 £000	2017 £000	Restated (see note 3) 2017 £000	2016 £000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	12	17,411		17,440	
Property, plant and equipment	14	300		299	
Deferred tax assets	22	-		393	
TOTAL NON-CURRENT ASSETS			17,711		18,132
CURRENT ASSETS					
Inventories	15	37		29	
Trade and other receivables	16	7,807		9,470	
Current tax receivable	19	1,013		1,267	
Cash and cash equivalents	17	3,572		3,064	
TOTAL CURRENT ASSETS			12,429		13,830
TOTAL ASSETS			30,140		31,962
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	2,156		2,725	
Deferred income		8,625		10,967	
Current tax payable	19	401		226	
Financial liabilities	20	34		220	
Deferred tax liabilities	22	12		-	
TOTAL CURRENT LIABILITIES			11,228		14,138
NON-CURRENT LIABILITIES					
Financial liabilities	20	18		51	
Retirement benefit obligations	23	2,249		3,750	
Provision for liabilities and charges	24	250		250	
TOTAL NON-CURRENT LIABILITIES			2,517		4,051
TOTAL LIABILITIES			13,745		18,189
EQUITY					
Share capital	25	1,592		1,589	
Share premium	27	12,535		12,488	
Merger reserve	27	1,598		1,598	
Shares to be issued	27	1,010		794	
Translation reserve	27	290		483	
Retained earnings	27	(630)		(3,179)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			16,395		13,773
TOTAL EQUITY AND LIABILITIES			30,140		31,962

The adoption of IFRS 15 Revenue from Contracts with Customers did not impact on the reported Balance Sheet as at 31 December 2016.

The financial statements on pages 30 to 80 were approved by the board of directors and authorised for issue on 25 April 2019 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2018

Company Registration No. 07148099

	Note	2018		2017	
		£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Investments	13	28,927		28,711	
TOTAL NON-CURRENT ASSETS			28,927		28,711
CURRENT ASSETS					
Trade and other receivables	16	3,131		2,246	
Cash and cash equivalents	17	643		1,036	
TOTAL CURRENT ASSETS			3,774		3,282
TOTAL ASSETS			32,701		31,993
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	4,595		3,876	
Financial liabilities	20	-		188	
TOTAL CURRENT LIABILITIES			4,595		4,064
TOTAL LIABILITIES			4,595		4,064
EQUITY					
Share capital	25	1,592		1,589	
Share premium	27	12,535		12,488	
Merger reserve	27	13,232		13,232	
Shares to be issued	27	1,010		794	
Retained earnings	27	(263)		(174)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			28,106		27,929
TOTAL EQUITY AND LIABILITIES			32,701		31,993

The Company's loss for the year and total comprehensive loss for the year was £89,000 (2017: profit £50,000).

The financial statements on pages 30 to 80 were approved by the board of directors and authorised for issue on 25 April 2019 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 2018

	Note	2018 £000	2017 £000	Restated (see note 3) 2017 £000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation			1,677	252
Adjustments for:				
Depreciation			144	186
Amortisation of intangibles			1,526	1,404
Share based payment			216	157
Retirement benefit obligations			(499)	(461)
Finance income			(33)	(186)
Finance costs			199	318
Decrease in deferred contingent consideration			-	(148)
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			3,230	1,522
Movements in working capital:				
(Increase)/Decrease in inventories			(7)	700
Decrease/(Increase) in trade and other receivables			1,997	(3,043)
(Decrease)/Increase in trade, other payables and deferred income			(3,448)	2,353
NET CASH GENERATED FROM OPERATIONS			1,772	1,532
Finance income			33	186
Finance costs			(11)	(112)
Income taxes			408	(214)
NET CASH GENERATED FROM OPERATING ACTIVITIES			2,202	1,392
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of intangible assets		(1,490)		(1,517)
Purchase of property, plant and equipment		(145)		(117)
Payment of deferred contingent consideration		(200)		(687)
Repayment of capital of finance leases		(31)		(30)
NET CASH USED IN INVESTING ACTIVITIES			(1,866)	(2,351)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		50		29
Finance lease interest		(4)		(6)
NET CASH GENERATED FROM FINANCING ACTIVITIES			46	23
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
			382	(936)
Cash and cash equivalents at start of year			3,064	4,189
Effects of exchange rate changes on the balance of cash held in foreign currencies			126	(189)
CASH AND CASH EQUIVALENTS AT END OF YEAR	17		3,572	3,064

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018		2017	
		£000	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/Profit before taxation			(89)		50
Adjustments for:					
Finance income			(81)		-
Finance cost			20		150
Decrease in deferred contingent consideration			-		(148)
CASH FLOWS (USED IN)/FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			(150)		52
Movements in working capital:					
(Increase)/Decrease in trade and other receivables			(885)		55
Increase/(Decrease) in trade and other payables			719		(573)
NET CASH USED IN OPERATIONS			(316)		(466)
Finance income			81		-
Finance costs			(8)		(61)
NET CASH USED IN OPERATING ACTIVITIES			(243)		(527)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment of deferred consideration		(200)		(687)	
NET CASH USED IN INVESTING ACTIVITIES			(200)		(687)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		50		29	
NET CASH GENERATED FROM FINANCING ACTIVITIES			50		29
NET DECREASE IN CASH AND CASH EQUIVALENTS			(393)		(1,185)
Cash and cash equivalents at start of year			1,036		2,221
CASH AND CASH EQUIVALENTS AT END OF YEAR	17		643		1,036

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 2017	1,577	12,462	1,432	864	1,048	(4,599)	12,784
Profit for the year	-	-	-	-	-	642	642
Other comprehensive income/ (expense) for the year	-	-	-	-	(565)	551	(14)
Total comprehensive income	-	-	-	-	(565)	1,193	628
Shares issued	12	26	166	-	-	-	204
Share based payment	-	-	-	157	-	-	157
Reserve transfer on lapse of share options	-	-	-	(227)	-	227	-
Balance at 31 December 2017 - Restated	1,589	12,488	1,598	794	483	(3,179)	13,773
Profit for the year	-	-	-	-	-	1,470	1,470
Other comprehensive (expense)/ income for the year	-	-	-	-	(193)	1,079	886
Total comprehensive income	-	-	-	-	(193)	2,549	2,356
Shares issued	3	47	-	-	-	-	50
Share based payment	-	-	-	216	-	-	216
Balance as at 31 December 2018	1,592	12,535	1,598	1,010	290	(630)	16,395

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 2017	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
Loss for the year	-	-	-	-	(89)	(89)
Shares issued	3	47	-	-	-	50
Share based payment	-	-	-	216	-	216
Balance as at 31 December 2018	1,592	12,535	13,232	1,010	(263)	28,106

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 loss for the year of the parent company is £0.089m (2017: profit £0.05m).

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

IFRS 15 Revenue from Contracts with Customers is effective for the Group for the period starting 1 January 2018. The Group has applied IFRS 15 retrospectively to each prior reporting period and has utilised certain practical expedients available in IFRS 15.

The adoption of IFRS 15 does not alter the total contract value or timing of cash flows. The revenue recognition from annual support fees and SaaS subscriptions does not change, as these continue to be spread rateably over the term of the contract. Management will continue to assess the revenue recognition from SaaS and maintenance and support services and whether they are a combined or distinct performance obligation on a contract by contract basis.

There are two key areas where the adoption of IFRS 15 changes current revenue recognition:

Bundled contracts:

Software licences, professional services and annual support are often bundled together in a contract. Under IFRS 15, a contract by contract assessment is completed to identify the performance obligations in each contract and may identify that the promise in the contract is a single performance obligation resulting in the total value of the contract being combined as one obligation and recognised over the contract term. The impact of this is a reduction of revenue previously recognised; an increase in deferred income and an increase in monthly recurring revenue going forward. Previously under IAS 18 revenue from professional services was recognised as the work was completed, revenue from the software licence was recognised when the risks and rewards of ownership of the product were transferred to the customer and revenue from the annual support was recognised over the term of the contract. This resulted in the revenue being recognised earlier in the contract period. For the years 2017 and 2018 Management identified three contracts where a single contractual obligation existed, resulting in the licence fee income being recognised over the period of the contracts rather than at the point of delivery.

Where software licenses, professional services and annual support are not part of a bundled contract or where a bundled contract is deemed not to represent a single performance obligation the revenue recognition for each revenue element does not change under IFRS 15. Management will assess whether software licences, professional services and annual support are distinct performance obligations on a contract by contract basis.

Contract costs:

Under IFRS 15, sales commissions that are incremental to obtaining the contract and are expected to be recovered are capitalised as a cost of obtaining the

contract and amortised over the life of the contract. These costs were previously expensed to the income statement as incurred.

Costs associated with the installation of software are capitalised as contract fulfilment assets and amortised over the life of the contract. Installation costs were previously expensed to the income statement as incurred.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the parent company, Instem plc, and its subsidiary undertakings made up to 31 December 2018 and 31 December 2017.

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 £9.8m at 31 December 2018 (2017: restated £10.7m). 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 £0.5m which was undrawn at 31 December 2018.

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

REVENUE RECOGNITION

The Group has adopted IFRS 15 Revenue from Contracts with Customers, in determining appropriate revenue recognition principles.

The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, professional services and technology enabled outsourced services.

At contract inception, an assessment is completed to identify the performance obligations in each contract. Performance obligations in a contract are either goods or services that are distinct or part of a series of goods

or services that are substantially the same and have the same pattern of transfer to the customer.

Promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied.

At contract inception, the transaction price is determined, being the amount that the group expects to receive for transferring the promised goods or services. The transaction price is allocated to the performance obligations in the contract based on their relative standalone selling prices. The Group has determined that the contractually stated price represents the standalone selling price for each performance obligation.

Revenue is recognised when a performance obligation has been satisfied by transferring the promised product or service to the customer.

Software licences

Revenue from the sale of the software licences is recognised when the customer takes possession of the software which is usually when the license key is provided to the customer. This is because the software is functional at the time the licence transfers to the customer and the Group is not required or expected to undertake activities that significantly affect the utility of the intellectual property by the customer.

Annual support

Customers typically enter into a support contract for a period of twelve months. This contract provides the customer with access to technical support and software upgrades. The promises in these contracts are a single performance obligation, which is satisfied over time as the customer consumes the benefits of the service. Revenue in respect of the single performance obligation is recognised evenly over the contract term.

SaaS subscription and support

Customers typically enter into a SaaS contract for a period of twelve months and pay a fixed amount in exchange for the right to access software on a hosted server along with access to maintenance and support. Initial SaaS contracts may also include some installation or customisation of the software and training for staff. The promises in this contract are considered to be a single performance obligation and the revenue is recognised over the period of the contract on a straight-line basis.

Professional services and technology enabled outsourced services

Customers typically enter into a service contract to provide distinct service work based on clear statements of work. Service work includes, but is not limited to, implementation services, training and outsourced services work relating to SEND and KnowledgeScan. The promises in this contract are considered to be a single performance obligation and the revenue is recognised on a percentage completion basis for fixed price contracts or as services are provided in respect of time and materials contracts.

Bundled contracts

Software licences, professional services and annual support are often bundled together in a contract.

Unless otherwise noted during the contract assessment, the three revenue elements are considered to be separate performance obligations on the basis that the software licence can be delivered with or without the professional services and annual support and management has determined that, although the annual support provides the customer with access to software upgrades, these upgrades are rarely utilised within the initial contract period and do not significantly enhance the intellectual property of the purchased software licence, therefore the products and services are not interdependent or interrelated with another good or service. In allocating the consideration to the separate performance obligations the standalone selling price is used.

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied. Revenue in respect of this bundled performance obligation is recognised over the period of the contracted obligation on a straight-line basis.

Amounts recoverable on contracts and deferred income

In most cases, customers are invoiced and payment is received in advance of revenue being recognised in the income statement. Amounts recoverable on contracts and deferred income is the difference between amounts invoiced to customers and revenue recognised under the policy described above. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within amounts recoverable on contracts.

Contract costs

The incremental costs associated with obtaining a contract are recognised as an asset if the Group expects to recover the costs. Costs that are not incremental to a contract are expensed as incurred. Management determine which costs are incremental and meet the criteria for capitalisation.

Costs to fulfil a contract, which are not in the scope of another standard, are recognised separately as a contract fulfilment asset to the extent that they relate directly to a contract which can be specifically identified; the costs generate or enhance resources that will be used to satisfy the performance obligation and the costs are expected to be recovered. Management applies judgement to determine which contract fulfilment costs meet the recognition criteria, and in particular if the costs generate or enhance resources used to satisfy the performance obligation.

Costs to fulfil a contract which do not meet the criteria above are expensed as incurred.

Contract fulfilment asset

Contract fulfilment assets are amortised over the expected contract period on a systematic basis representing the pattern in which control of the associated service is transferred to the customer.

Practical exemptions

The Group has taken advantage of the following practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less;
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less; and
- to not disclose information relating to performance obligations for contracts that had an original expected duration of one year or less or where the right to consideration from a customer is an amount that corresponds directly with the value of the completed performance obligations.

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 DISCLOSURES

Instem has one operating segment, providing goods and services to the global life sciences market, based on management information provided to Instem's chief operating decision-maker, the Group's Board of Directors. Resource allocation decisions are made for the benefit of the whole product portfolio. Performance of the product portfolio is assessed based on the consolidated profit and loss before tax for the year.

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.

ACCOUNTING POLICIES (CONTINUED)

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)

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.

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 2017	1.2886	10.0426	8.7036	83.8497	144.4930	1.1416
Closing rate at 31 December 2017	1.3513	10.5678	8.7931	86.2715	152.2310	1.1260
Average rate for year ended 31 December 2018	1.3354	10.4662	8.8201	91.1933	147.3546	1.1301
Closing rate at 31 December 2018	1.2735	9.9761	8.7611	88.8707	140.3243	1.1138

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. Non-market vesting conditions are linked to trading performance and service over defined time periods.

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

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

TAXATION

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

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the statement of comprehensive income because it

excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another year. The Group’s liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

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

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

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax is recognised on income or expenses from subsidiaries that will be assessed or allow for tax in future periods except where the Group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

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

INTANGIBLE ASSETS

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

Intellectual Property, Customer Relationships and Patents

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

Goodwill

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

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

Computer Software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its use, these costs are amortised over the estimated useful life of the software.

Internally generated intangible assets

Expenditure on research activities is recognised in the statement of comprehensive income as incurred.

Expenditure arising from the Group's development of software for sale to third parties is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where these criteria have not been achieved, development expenditure is recognised in profit or loss in the period in which it is incurred.

Internally-generated intangible assets are amortised, once the product is available for use, on a straight-line basis over their useful lives (five to eight years).

PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and provision for impairments.

Depreciation is provided on all assets so as to write off the cost less estimated residual value on a straight-line basis as follows:

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

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

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

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the

estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

INVENTORY

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

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

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.

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle the instruments contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

Expected credit losses are considered over the maximum contractual period (including extension options) during which the entity is exposed to credit risk by extrapolating expectations beyond periods covered by reasonable and supportable forecasts.

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.

Revenue Recognition

The Group has adopted IFRS 15 Revenue from Contracts with Customers, in determining appropriate revenue recognition principles. The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, professional services and technology enabled outsourced services.

Unless otherwise noted during the contract assessment, the software licences, annual support and professional services are considered to be separate performance obligations on the basis that the software licence can be delivered with or without the professional services and annual support and management has determined that, although the annual support provides the customer with access to software upgrades, these upgrades are rarely utilised within the initial contract period and do not significantly enhance the intellectual property of the purchased software licence, therefore the products and services are not interdependent or interrelated with another good or service. In allocating the consideration to the separate performance obligations the standalone selling price is used.

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied. Revenue in respect of this bundled performance obligation is

recognised over the period of the contracted obligation on a straight-line basis.

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 2018, the Group has 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. The CGU with the most sensitivity to obtaining future custom and profitability is Instem Clinical where an additional increase of 28% in the discount rate or a reduction in revenues of 31% would result in the recoverable amount of the CGU being equal to its carrying amount. The forecasts to support Clinical's carrying value are reliant on winning future contracts that have not yet been agreed.

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 2018. 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 16 - 'Leases' effective - 1 January 2019

It is expected that IFRS 16 will materially affect the Group's consolidated financial statements. As at the reporting date the Group has non-cancellable operating lease commitments of £3.4m (refer to note 29) the majority of which relate to office leases held across all locations. Management have performed an analysis of these leases to assess the expected impact of IFRS 16. If IFRS 16 was implemented in the year to 31 December 2018, its effect would be to increase the net book value of property, plant and equipment, with a corresponding finance lease liability. The net impact on the income statement for the year ended 31 December 2018 would be £nil.

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.

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

IFRS 9 - 'Financial Instruments' effective - 1 January 2018

The Group has applied IFRS 9 'Financial Instruments' (IFRS) for the first time in the year ended 31 December 2018. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and measurement'. No significant changes were identified on adoption of this standard.

IFRS 9 requires impairments of financial assets to be assessed using an 'expected loss' model. The change from the 'incurred loss' model previously applied under IAS 39 resulted in an no additional impairment loss being recognised at 1 January 2018.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. REVENUE FROM CONTRACTS WITH CUSTOMERS

a. Disaggregation of Revenue

The Group has disaggregated revenue into various categories in the following tables which are intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

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

REVENUE BY PRODUCT TYPE	2018 £000	Restated 2017 £000
Licence fees	3,491	5,194
Annual support fees	8,160	8,446
SaaS subscription and support fees	5,509	4,424
Professional services	2,204	1,891
Technology enabled outsourced services	3,341	1,116
	22,705	21,071

REVENUE BY GEOGRAPHICAL LOCATION	2018 £000	Restated 2017 £000
UK	3,504	2,073
Rest of Europe	4,534	4,567
USA and Canada	11,507	12,246
Rest of World	3,160	2,185
	22,705	21,071

NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION BY GEOGRAPHICAL LOCATION	2018 £000	Restated 2017 £000
UK	16,896	17,167
Rest of Europe	624	320
USA and Canada	133	214
Rest of World	58	38
	17,711	17,739

There were no customers which represented more than 10% of the Group revenue in 2018 (2017: none)

b. Contract Balances

£000	2018		2017	
	Amounts recoverable on contracts	Deferred income	Amounts recoverable on contracts	Deferred income
At 1 January	2,389	(10,967)	894	(9,092)
Transfer in the period from amounts recoverable on contracts to trade receivables	(2,389)	-	(894)	-
Amounts included in deferred income that was recognised as revenue during the period	-	10,967	-	9,092
Cash received in advance of performance and not recognised as revenue during the period	-	(8,625)	-	(10,370)
Excess of revenue recognised over cash being recognised during the period	2,807	-	2,389	-
IFRS 15 Restatement	-	-	-	(597)
At 31 December	2,807	(8,625)	2,389	(10,967)

Amounts recoverable on contracts and deferred income are included within “trade and other receivables” and “deferred income” respectively on the face of the statement of financial position.

Amounts recoverable on contracts predominately relate to fulfilled obligations on service contracts where billing is in arrears. At the point where completed work is invoiced, the contract asset is derecognised and a corresponding receivable recognised.

Deferred income relates to consideration received from customers in advance of work being completed and maintenance and support which is invoiced in advance.

c. Remaining performance obligations

The vast majority of the Group’s contracts are for the delivery of software and services within the next 12 months for which the practical expedient in paragraph 121(a) of IFRS 15 applies. However, certain bundled contracts have been entered into for which both the original contract was greater than 12 months and the Group’s right to consideration does not correspond directly with the performance.

The amount of revenue that will be recognised in future periods on these contracts is as follows:

	2019 £000	2020 £000	2021 £000
Revenue	142	108	4

The Group has applied the exemption in paragraph C5(d) of the transitional rules in IFRS 15 and therefore has not disclosed the amount of revenue that will be recognised in future periods for the comparative period.

d. Contract Costs

It is expected that commissions paid are recoverable. These have therefore been capitalised as an asset and are amortised over the term of the contract.

The carrying value of costs to obtain contracts with customers which have been capitalised is an amount of £0.01m (2017: £0.03m). Amortisation of £0.02m (2017: £nil) was recognised during the year.

The entity has applied the practical expedient available in paragraph 94 of IFRS 15 to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

2. PROFIT BEFORE NON-RECURRING COSTS

	2018 £000	2017 £000
Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	114	156
Leased assets	30	30
Amortisation of intangible assets	1,526	1,404
Research and development costs	1,623	1,831
Operating lease rentals:		
Plant and machinery	37	61
Land and buildings	527	521
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	25	21
Other services:		
Audit of subsidiaries where such services are provided by RSM UK Audit LLP or its associates	68	67
Audit related assurance services	22	16
Taxation services - Compliance	22	22
Taxation services - Advisory	26	17
Other services	-	1
	163	144

The following table analyses the nature of operating expenses:

	2018 £000	Restated 2017 £000
Staff costs (see note 8)	12,220	11,981
Operating lease rentals	564	582
Software maintenance charges	561	549
Licence costs	1,109	1,685
Other expenses	3,983	3,700
Total operating expenses	18,437	18,497

3. RECONCILIATION TO PREVIOUSLY REPORTED INFORMATION

The table below reconciles key line items in these financial statements to the information provided in the financial statements for the year ended 31 December 2017 and the opening statement of financial position at 1 January 2018. The changes relate to the fully retrospective adoption of IFRS 15, Revenue from Contracts with Customers.

	As previously reported	IFRS 15 adoption	As restated
INCOME STATEMENT FOR 2017			
	£000	£000	£000
REVENUE	21,668	(597)	21,071
Operating expenses	(18,549)	52	(18,497)
Share based payment	(157)	-	(157)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ("EBITDA")	2,962	(545)	2,417
Depreciation and Amortisation	(1,590)	-	(1,590)
PROFIT BEFORE NON-RECURRING COSTS	1,372	(545)	827
PROFIT BEFORE TAXATION	797	(545)	252
Taxation	297	93	390
PROFIT FOR THE YEAR	1,094	(452)	642
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017			
	£000	£000	£000
Non-current assets	18,039	93	18,132
Deferred tax asset	300	93	393
Total assets	31,869	93	31,962
Current liabilities	13,593	545	14,138
Trade and other payables	2,777	(52)	2,725
Deferred income	10,370	597	10,967
Total liabilities	17,644	545	18,189
Total equity attributable to the owners of the parent	14,225	(452)	13,773
Retained earnings	(2,727)	(452)	(3,179)

4. IMPACT OF IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS, ON THE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The table below shows the impact of IFRS15, Revenue from Contracts with Customers on key line items in the Income statement for the year ended 31 December 2018.

	Amounts excluding IFRS 15	IFRS 15 adoption	As reported
INCOME STATEMENT FOR 2018	£000	£000	£000
REVENUE	22,322	383	22,705
Operating expenses	(18,397)	(40)	(18,437)
Share based payment	(216)	-	(216)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS ('EBITDA')	3,709	343	4,052
Depreciation and Amortisation	(1,670)	-	(1,670)
PROFIT BEFORE NON-RECURRING COSTS	2,039	343	2,382

5. NON-RECURRING COSTS

	2018 £000	2017 £000
Guaranteed Minimum Pension (GMP) equalisation provision	(126)	-
Legal cost and cost provision relating to historical contract disputes	(49)	(250)
Professional fees	(364)	-
Restructuring costs	-	(341)
Amendment to contingent consideration post acquisition	-	148
	(539)	(443)

Pension schemes are legally required to equalise pension benefits for the effects of unequal Guaranteed Minimum Pensions (GMPs) between males and females that were accrued since May 1990. The Group has included a reserve for the cost of GMP equalisation, based on information from the Group's pension advisors (see note 23).

The professional costs incurred in the period relate to a one-off project undertaken in the period by the Group as part of its forecasting and underlying operations review. The benefits of this project are expected to be realised in future periods.

6. FINANCE INCOME

	2018 £000	2017 £000
Foreign exchange gains	25	184
Other interest	8	2
	33	186

7. FINANCE COSTS

	2018 £000	2017 £000
Bank loans and overdrafts	11	112
Unwinding discount on deferred consideration	12	71
Net interest charge on pension scheme	172	129
Finance lease interest	4	6
	199	318

8. EMPLOYEES

	2018 Number	2017 Number
Average monthly number (including non-executive directors)		
By role:		
Directors, administration and supervision	39	43
Software design, sales and customer service	199	174
	238	217
	2018 £000	2017 £000
Employment costs:		
Wages and salaries	10,416	10,181
Social security costs	1,031	1,047
Other pension costs	773	753
	12,220	11,981

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 10.

9. 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.

	2018		2017	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	1,098,230	1.14	1,209,093	1.07
Granted	408,446	0.10	20,000	0.10
Lapsed	(9,857)	0.10	(104,209)	0.10
Exercised	(31,271)	1.60	(26,654)	1.07
Outstanding at end of the year	1,465,548	0.85	1,098,230	1.14
Exercisable at end of year	1,014,341	1.18	757,881	1.61

The options outstanding at 31 December 2018 and 31 December 2017 had exercise prices of £0.10, £0.90, £1.75, £1.76, £2.215 and £2.22 and a weighted average remaining contractual life of 5 years 3 months (2017: 4 years 11 months).

A charge of £0.2m (2017: £0.2m) arose in respect of share based payments.

New options for 408,446 shares were granted in the year, 400,000 shares of which are valued using the Monte-Carlo option-pricing model. The fair market value has been estimated using the following key assumptions:

2018	
Grant date	22 February 2018
Expected life (years)	3
Share price at grant date	£1.69
Exercise price	Nil
Dividend yield	0.00%
Risk free rate (average)	0.74%
Projection period (years)	2.10
Volatility	28.6%
Fair value of options (average)	£0.41

Options over 8,446 shares (2017: 21,599) 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 £0.2m (2017: £0.3m).

During the year, the average share price in respect of share options exercised was £2.09 (2017: £1.65)

10. DIRECTORS' EMOLUMENTS

	2018 £000	2017 £000
Amounts payable by Instem plc:		
Emoluments*	120	120
Amounts payable by subsidiary companies:		
Emoluments	335	340
Defined contribution pension contributions	41	40
Total emoluments	496	500

* The above emoluments include £17,500 (2017: £30,000) payable to third parties as shown in note 30.

	2018 Number	2017 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.

11. TAXATION

	2018 £000	2017 £000
Income taxes recognised in profit or loss:		
Current tax:		
UK corporation tax on profit of the year	-	-
UK corporation tax in respect of previous years	(85)	306
Adjustments in respect of R&D tax credit	477	567
Foreign tax	(403)	(379)
Foreign tax in respect of previous years	(12)	337
Total current tax	(23)	831
Deferred tax:		
Current year charge	(67)	(28)
Adjustment in respect of previous years	(83)	(357)
Retirement benefit obligation	(34)	(56)
Total deferred tax	(184)	(441)
Total income tax (charge)/credit recognised in the current year	(207)	390

11. TAXATION (CONTINUED)

The income tax (expense)/credit can be reconciled to the accounting profit as follows:	2018 £000	Restated 2017 £000
Profit before tax	1,677	252
Profit before tax multiplied by standard rate of corporation tax in the UK 19.0% (2017: 19.25%)	(319)	(49)
Effects of:		
Expenses not allowable for tax purposes	(6)	(74)
Fixed asset temporary differences	(94)	(101)
Differences in overseas tax rates	(187)	(105)
Adjustments in respect of prior years	(180)	286
Foreign tax suffered in excess of double tax relief	-	(69)
Adjustment in respect of R&D tax credit	477	567
Other temporary differences	71	(113)
Tax losses utilised	31	48
Total income tax (charge)/credit recognised in consolidated statement of comprehensive income	(207)	390

12. INTANGIBLE ASSETS

Group	Goodwill £000	Software £000	Intellectual property £000	Customer relationships £000	Patents £000	Total £000
Cost						
At 1 January 2017	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
Additions from continuing operations	-	1,490	-	-	-	1,490
Disposals	-	(96)	-	-	-	(96)
Exchange adjustment	-	14	-	-	-	14
At 31 December 2018	10,590	6,840	4,527	2,874	21	24,852
Amounts written off						
At 1 January 2017	-	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
Amortisation expense	-	738	492	296	-	1,526
Disposals	-	(96)	-	-	-	(96)
Exchange adjustment	-	7	-	-	-	7
At 31 December 2018	-	2,953	3,040	1,427	-	7,441
Net book value						
At 31 December 2017	10,590	3,128	1,979	1,743	-	17,440
At 31 December 2018	10,590	3,887	1,487	1,447	-	17,411

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £6.1m (2017: £4.6m) with accumulated amortisation of £2.3m (2017: £1.6m). Software additions for the year include £1.5m relating to internal development (2017: £1.4m).

Impairment of goodwill

Goodwill amounting to £5.9m (2017: £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 (2017: £0.5m), relates to a CGU, being the Instem Scientific Limited business acquired on 3 March 2011. Goodwill amounting to £2.5m (2017: £2.5m), relates to a CGU, being the Instem Clinical Holdings Limited business acquired on 10 May 2013. Goodwill amounting to £0.7m (2017: £0.7m) relates to a CGU, being the Perceptive Instruments Limited business acquired on 21 November 2013. Goodwill amounting to £0.6m (2017: £0.6m) relates to a CGU, being the Samarind Limited business acquired on 27 May 2016. Goodwill amounting to £0.5m (2017: £0.5m) relates to a CGU, being the Notocord business acquired on 2 September 2016.

12. INTANGIBLE ASSETS (CONTINUED)

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

The key assumptions used, which are based on management’s past experience, for the value-in-use calculations are those regarding the discount rates, growth rates and direct costs during the period. The value-in-use calculations are based on the future 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 2018, a pre-tax discount rate of 10.5% (2017: 8.9%) 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 2019 with a 2.5% assumption of growth beyond 2019. 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 747%, for the Instem Scientific CGU by 424%, for Instem Clinical CGU by 278%, Perceptive Instruments CGU by 386%, Samarind CGU by 361% and Notocord CGU by 112%. 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 76%, or a reduction in certain revenues of in excess of 19%, would result in the recoverable amount of the Instem LSS CGU being equal to its carrying amount. An additional increase of 47% in the Instem Scientific discount rate, or a reduction in revenues of 14% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 28% in the Instem Clinical discount rate, or a reduction in revenues of 31% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 43% in the Perceptive Instruments discount rate, or a reduction in revenues of 15% would result in the recoverable amount of the CGU being equal to its carrying amount. An additional increase of 32% in the Samarind discount rate, or a reduction in revenues by 8% would result in the recoverable amount of the CGU being equal to its carrying value. An additional increase of 3% in the Notocord discount rate, or a reduction in revenues by 2% 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.

13. INVESTMENTS

Company	2018 £000	2017 £000
Cost at beginning of year	28,711	28,426
Additions	216	285
At end of year	28,927	28,711

At the end of the year the company has six wholly-owned subsidiaries and eleven wholly-owned sub-sub-subsidiaries, details of which are as follows:

Company	Registered Address	Activity	Ownership
Instem Life Science Systems Limited (company number 04339129) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Holding Company	100% by Instem plc
Instem LSS Limited (company number 03548215) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Software development, sales, sales support and administrative support	100% by Instem Life Science Systems Limited
Instem LSS (North America) Limited (company number 02126697) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Sales, sales support and administrative support	100% by Instem LSS Limited
Instem LSS (Asia) Limited (company number 1371107) Hong Kong	Suite 1106-8 11/F Tai Yau Building No 181 Johnston Road Wanchai	Holding Company	100% by Instem LSS Limited
Instem Information Systems (Shanghai) Limited (company number 310115400257075) Shanghai, PRC	Room 205, Building 16 88 Daerwen 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	Adisa Icon Mumbai Bangalore Highway 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

13. INVESTMENTS (CONTINUED)

Company	Registered Address	Activity	Ownership
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 <i>in vitro</i> 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	Parc des Grillons 60, route de Sartrouville 78230 Le Pecq Paris	Software development, sales support and administrative support	100% by Instem plc
Notocord Inc. USA	PO Box 10188 Newark New Jersey 07101-3188	Sales, sales support and administrative support	100% by Notocord Systems S.A.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Short leasehold property £000	IT hardware & software £000	Total £000
Cost			
At 1 January 2017	79	1,057	1,136
Additions	-	117	117
Acquisitions	-	(259)	(259)
Exchange adjustment	(1)	(22)	(23)
At 31 December 2017	78	893	971
Additions	29	116	145
Disposals	(10)	(32)	(42)
*Adjustment	(4)	562	558
Exchange adjustment	1	5	6
At 31 December 2018	94	1,544	1,638
Depreciation			
At 1 January 2017	57	705	762
Acquisitions	4	182	186
Depreciation expense	-	(259)	(259)
Exchange adjustment	(1)	(16)	(17)
At 31 December 2017	60	612	672
Depreciation expense	4	140	144
Disposals	(3)	(32)	(35)
*Adjustment	4	549	553
Exchange adjustment	1	3	4
At 31 December 2018	66	1,272	1,338
Net book value			
At 31 December 2017	18	281	299
At 31 December 2018	28	272	300

*Adjustment refers to a correction to previously reported cost of £0.6m and depreciation of £0.6m. The impact on net book value is nil.

IT hardware and software includes assets with a net book value of £0.04m (2017: £0.07m) held under finance lease. The depreciation on these assets during the year was £0.03m (2017: £0.03m).

15. INVENTORIES

Group	2018 £000	2017 £000
Raw materials	-	14
Work in progress	37	15
	37	29

	2018 £000	2017 £000
Total gross inventories	37	29

16. TRADE AND OTHER RECEIVABLES

Group	2018 £000	2017 £000
Trade receivables	3,786	6,104
Amounts recoverable on contracts	2,807	2,389
Prepayments and accrued income	1,214	977
	7,807	9,470

Company		
Amounts owed by group companies	3,010	2,192
Other receivables	121	54
	3,131	2,246

An analysis of the provision for impairment of receivables is as follows:

Group	2018 £000	2017 £000
At beginning of year	73	94
Increase in provision for impairment	1	64
Receivables written off	-	(31)
Reversal of provision for impairment	(20)	(54)
At end of year	54	73

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Definition of default

A loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

Impairment of trade receivables

The probability of default is determined at the year-end based on the ageing of the receivables, historical data about default rates. That data is adjusted if the Group determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

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.

Impairment of group receivables

The Group assesses the expected credit loss in respect of group receivables based on their ability to repay and recover the balance. In the absence of agreed terms this consideration is given over the expected period of repayment and any expected credit loss. As at the period end no allowance has been made for credit impairment of group receivables (2017: nil)

The average credit period taken on sale is 83 days (2017: 88 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.

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

Debt age						
Group 2018	Current	0-30 days	31-60 days	Over 60 days	Total	
Trade receivables/Amounts recoverable on contracts						
Value (£000)	4,061	1,904	216	412	6,593	
%	62	29	3	6	100	

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	

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.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Group	2018 £000	2017 £000
Sterling	2,887	3,928
Euro	171	576
US Dollar	3,866	4,551
Renminbi	718	288
Other	165	127
	7,807	9,470

17. CASH AND CASH EQUIVALENTS

Group	2018 £000	2017 £000
Cash at bank	12,570	12,062
Bank overdraft	(8,998)	(8,998)
	3,572	3,064
Company		
Cash at bank	643	1,036

The Group's overdraft facility has a net limit of £0.5m 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's assets. The bank facility is reviewed in April each year.

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

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

Group	2018 £000	2017 £000
Sterling	(226)	(1,539)
Euro	105	683
US Dollar	1,597	3,034
Renminbi	1,629	828
Other	467	58
	3,572	3,064
Company		
Sterling	643	1,036
	643	1,036

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

18. TRADE AND OTHER PAYABLES

	2018 £000	Restated 2017 £000
Group - Current		
Trade payables	589	548
Other taxation and social security costs	205	410
Accruals	1,362	1,767
	2,156	2,725
Company - Current		
Trade payables	165	35
Amounts owed to group companies	4,271	3,659
Accruals	159	182
	4,595	3,876

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

	2018 £000	Restated 2017 £000
Group		
Sterling	1,164	1,495
Euro	132	246
US Dollar	821	918
Other	39	66
	2,156	2,725
Company		
Sterling	4,595	3,876

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 2018	Current	0-30 days	31-60 days	Over 60 days	Total
Trade and other payables (£000)	1,801	328	-	27	2,156
%	84	15	-	1	100
Group 2017	Current	0-30 days	31-60 days	Over 60 days	Total
Trade and other payables (£000)	2,318	369	34	4	2,725
%	85	14	1	-	100

19. CURRENT TAXATION

The Group current tax receivable of £1.0m and payable of £0.4m (2017: receivable of £1.3m and payable of £0.2m) represents the amount of income taxes receivable and payable in respect of current and prior years.

The Company current tax payable is £nil (2017: £nil).

20. FINANCIAL LIABILITIES

	Group 2018	Total £000	Less than one year £000	One to two years £000	More than two years £000
Finance lease liabilities		52	34	18	-
		52	34	18	-

	Company 2018	Total £000	Less than one year £000	One to two years £000	More than two years £000
Finance lease 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	-	-
		188	188	-	-

Deferred contingent consideration

The deferred contingent consideration above includes £nil (2017: £0.2m) in respect of the acquisition of Samarind Limited.

20. FINANCIAL LIABILITIES (CONTINUED)

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payment	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Not later than one year	36	36	34	32
Later than one year and not later than five years	18	54	18	51
	54	90	52	83
Less future finance charges	(2)	(7)	-	-
Present value of minimum lease payments	52	83	52	83

Reconciliation of liability arising from financing activities	31 December 2018 £000	31 December 2017 £000
At the beginning of the year	83	113
Repayment of finance leases	(31)	(30)
At the end of the year	52	83

21. FINANCIAL INSTRUMENTS

All financial instruments held by the Group, as detailed in this note, are classified as “Loans and Receivables” (trade and other receivables, excluding prepayments, and cash and cash equivalents), “Financial Liabilities Measured at Amortised Cost” (trade and other payables, excluding statutory liabilities, and deferred consideration) and “Fair value through profit and loss” (other financial liabilities which reflect deferred contingent consideration, and a forward contract shown as a financial asset) under IFRS 9 ‘Financial Instruments’.

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.

2018 Group and Company	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deferred contingent consideration	-	-	-	-
	-	-	-	-

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

21. FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows a reconciliation from the opening balances as at 1 January 2018 to the closing balances as at 31 December 2018 for Level 3 fair value measurements in respect of both the Group and Company.

	Deferred contingent consideration £000
Balance as at 1 January 2018	188
Cash payment in the year	(200)
Unwinding discount*	12
Balance as at 31 December 2018	-

*Recognised in consolidated statement of comprehensive income and reflected in finance 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 £0.1m (2017: £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 2018, 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 2018 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).

21. FINANCIAL INSTRUMENTS (CONTINUED)

2018	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Group				
Trade and other receivables	-	-	6,593	6,593
Cash and cash equivalents	-	3,572	-	3,572
Trade and other payables	-	-	(1,951)	(1,951)
Finance lease	(52)	-	-	(52)
	(52)	3,572	4,642	8,162

2017	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Restated Total £000
Group				
Trade and other receivables	-	-	8,493	8,493
Cash and cash equivalents	-	3,064	-	3,064
Trade and other payables	-	-	(2,315)	(2,315)
Deferred contingent consideration	-	-	(188)	(188)
Finance lease	(83)	-	-	(83)
	(83)	3,064	5,990	8,971

2018	Fixed rate £000	Floating rate £000	Non-interest bearing £000	Total £000
Company				
Trade and other receivables	-	-	3,131	3,131
Cash and cash equivalents	-	643	-	643
Trade and other payables	-	-	(4,595)	(4,595)
	-	643	(1,464)	(821)

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)

21. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Management aims to minimise the risk of credit losses.

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

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

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

The Group generates external revenue from no customers which individually amount to more than 10% of the Group revenue (2017: 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 16 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.

The Group undertakes procedures to determine whether there has been a significant increase in the credit risk of its other receivables, including group balances, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

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 2018, its £0.5m bank facility was undrawn (2017: £2.0m undrawn).

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

22. DEFERRED TAX

Group	2018 £000	Restated 2017 £000
Deferred tax asset		
Amounts due to be recovered within 12 months	-	93
Amounts due to be recovered after 12 months	(12)	300
Total deferred tax (liability)/asset	(12)	393

22. DEFERRED TAX (CONTINUED)

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

	2018 £000	Restated 2017 £000
At beginning of the year	393	947
Net charge to income for the year	(101)	(84)
Net debit to equity	(221)	(113)
Adjustments in respect of prior years	(83)	(357)
At end of the year	(12)	393

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 2017	(835)	897	807	78	947
Credit/(charge) to profit or loss for the year	177	(70)	(56)	(135)	(84)
Debit to equity for the year	-	-	(113)	-	(113)
Adjustments in respect of prior years	-	(133)	-	(224)	(357)
At 31 December 2017	(658)	694	638	(281)	393
Credit/(charge) to profit or loss for the year	132	(257)	(34)	58	(101)
Debit to equity for the year	-	-	(221)	-	(221)
Adjustments in respect of prior years	-	-	-	(83)	(83)
At 31 December 2018	(526)	437	383	(306)	(12)

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 2018 were £0.3m (2017: £0.3m) due to uncertainty over the timing of the recoverability of these losses.

23. 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 2018 were £0.53m (2017: £0.46m).

CONTRACTED IN MONEY PURCHASE SCHEME (CIMP) - the Scheme was created on 31 December 2008. The Scheme is a non-contributory scheme created for former members of the Instem LSS Pension Scheme who are US residents. Employer contributions for the year ended 31 December 2018 were £0.03m (2017: £0.03m).

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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 2018 were £0.16m (2017: £0.11m).

BIOWISDOM GPP SCHEME - the Scheme is a Group Personal Pension arrangement with AVIVA 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 2018 were £0.02m (2017: £0.02m).

SAMARIND GROUP PENSION PLAN - the Scheme is a Group Personal Pension arrangement with Scottish Widows. This Scheme moved to the Group Personal Pension Plan on 1 November 2017. During the year ended 31 December 2018 the employer made contributions of £nil (2017: £0.02m).

Defined benefit pension scheme

The Group also operates a defined benefit pension arrangement called the Instem LSS Pension Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. This scheme was closed to new members with effect from 8 October 2001.

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 meet the Statutory Funding Objective. The future contributions required to meet the Statutory Funding Objective do not currently affect the balance sheet of the Scheme in these accounts.

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

The Scheme exposes the Group to a number of risks:

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

Apart from GMP equalisation and the increase on the cap on certain pension increases there were no Scheme amendments, curtailments or settlements during the year.

The most recent comprehensive actuarial valuation was carried out at 5 April 2017 and the next valuation of the Scheme is due at 5 April 2020. In the event that the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected, it's possible that contributions may be reduced.

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The following schedule of contributions was prepared by the Trustees of 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 2018:

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 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
31 March 2024	25	313
30 October 2024	25	193

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.

	2018 %	2017 %
Discount rate (pa)	3.00	2.65
Inflation (RPI) (pa)	3.10	3.10
Inflation (CPI) (pa)	2.00	2.00
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	3.00	3.00
Life Expectancy assumption (number of years from the age of 65)	Years	Years
Male currently aged 45	24.1	24.3
Female currently aged 45	25.2	25.3
Male currently aged 65	23.1	23.2
Female currently aged 65	24.0	24.1
ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	2018 £000	2017 £000
Interest on pension scheme assets	212	278
Interest on pension scheme liabilities	(384)	(407)
Net finance charge	(172)	(129)

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Pension schemes are legally required to equalise pension benefits for the effects of unequal Guaranteed Minimum Pensions (GMPs) between males and females that were accrued since May 1990. The Group has included a reserve of £0.126m in 2018 for the cost of GMP equalisation, based on information from the Group's pension advisors. This amount is charged to non-recurring costs in the Statement of Comprehensive Income.

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	2018 £000	2017 £000
Losses/(gains) on pension scheme assets in excess of interest	957	(686)
Experience gains on liabilities	-	(183)
Gains from changes to demographic assumptions	(65)	(156)
(Gains)/losses from changes to financial assumptions	(2,192)	361
Actuarial gain recognised in other comprehensive expense	(1,300)	(664)
CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	2018 £000	2017 £000
Opening defined benefit obligation	14,549	14,436
Interest cost	384	407
Past service cost and GMP reserve	203	-
Benefits paid	(224)	(316)
Experience gain on liabilities	-	(183)
Changes to demographic assumptions	(65)	(156)
Changes to financial assumptions	(2,192)	361
Closing defined benefit obligation	12,655	14,549
CHANGES IN THE FAIR VALUE OF PLAN ASSETS	2018 £000	2017 £000
Opening plan assets	10,799	9,690
Expected return	289	278
Return on plan assets less interest	(957)	686
Contributions by employer	499	461
Benefits paid	(224)	(316)
Closing plan assets	10,406	10,799

The actual return on plan assets was a negative return of £0.67m (2017: positive return £0.96m).

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2018 £000	2017 £000
Present value of funded obligations	(12,655)	(14,549)
Fair value of plan assets	10,406	10,799
Net pension liability	(2,249)	(3,750)
Related deferred tax asset	383	638
Net pension liability after deferred tax	(1,866)	(3,112)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY	2018 £000	2017 £000
Opening net defined benefit liability	3,750	4,746
Net interest expense and GMP reserve	298	129
Remeasurements	(1,300)	(664)
Contributions by employer	(499)	(461)
Closing net defined benefit liability	2,249	3,750

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE EXPENSE	Cumulative 2018 £000	Cumulative 2017 £000
Actual return less expected return on pension scheme assets	1,091	2,048
Experience gains and losses arising on scheme liabilities	(1,628)	(1,628)
Changes in demographic assumptions	354	289
Changes in assumptions underlying the present value of the scheme liabilities	(3,188)	(5,380)
Cumulative actuarial loss recognised in other comprehensive expense	(3,371)	(4,671)
Actuarial gain recognised in other comprehensive income in the period	1,300	664

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

	2018		2017	
	£000	%	£000	%
Equities	6,458	62	7,468	69
Property	781	8	438	4
Bonds	1,058	10	1,104	10
Corporate Bonds	1,297	12	1,028	10
Cash	86	1	553	5
Other	726	7	208	2
	10,406	100	10,799	100

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of defined benefit obligation	(12,655)	(14,549)	(14,436)	(11,782)	(11,405)
Fair value of plan assets	10,406	10,799	9,690	7,849	7,524
Deficit	(2,249)	(3,750)	(4,746)	(3,933)	(3,881)
Experience gains/(loss) on plan liabilities	65	156	-	-	(138)
Return on plan assets less interest	(957)	686	1,252	(136)	(7)

The Group expects to contribute £0.5m to its defined benefit plan in the next financial year (2017: £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	(1,018)
Minus 0.50% pa	1,153
INFLATION	
Plus 0.50% pa	1,068
Minus 0.50% pa	(952)
LIFE EXPECTANCY	
Plus 1 year	301
Minus 1 year	(291)

24. PROVISION FOR LIABILITIES AND CHARGES

	2018 £000	2017 £000
At 1 January	250	-
Increase in provision during the year	-	250
At 31 December	250	250

During the year the Group made a provision of £nil (2017: £0.25m) in respect of historical contract disputes. The utilisation of this provision is anticipated to be within 2 years.

25. SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID	2018 £000	2017 £000
At 1 January		
15,886,660 ordinary shares of 10p each (2017: 15,771,398)	1,589	1,577
31,271 ordinary shares of 10p each (2017: 115,262), issued during the year	3	12
At 31 December	1,592	1,589

During the year 31,271 shares were issued in respect of the exercise of share options.

26. 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.

	2018			Restated 2017		
	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	1,470	15,909	9.2	642	15,831	4.1
Potentially dilutive shares	-	940	-	-	328	-
Earnings per share - Diluted	1,470	16,849	8.7	642	16,159	4.0

The adoption of IFRS 15 Revenue from Contracts with Customers has impacted Earnings per share (basic and fully diluted). The pre-restated 2017 position is:

	2017		
	Pre-restated Profit after tax (£000)	Weighted average number of shares (000's)	Pre-restated Earnings per share (pence)
Earnings per share - Basic	1,094	15,831	6.9
Potentially dilutive shares	-	328	-
Earnings per share - Diluted	1,094	16,159	6.8

26. EARNINGS PER SHARE (CONTINUED)

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.

	2018			2017		
	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	2,611	15,909	16.4	1,782	15,831	11.3
Potentially dilutive shares	-	940	-	-	328	-
Earnings per share - Diluted	2,611	16,849	15.5	1,782	16,159	11.0

The adoption of IFRS 15 Revenue from Contracts with Customers has impacted Earnings per share (adjusted basic and fully diluted). The pre-restated 2017 position is:

	2017		
	Pre-restated Profit after tax (£000)	Weighted average number of shares (000's)	Pre-restated Earnings per share (pence)
Earnings per share - Basic	2,234	15,831	14.1
Potentially dilutive shares	-	328	-
Earnings per share - Diluted	2,234	16,159	13.8

Reconciliation of adjusted profit before tax:	2018 £000	Restated 2017 £000
Reported profit before tax	1,677	252
Non-recurring costs	539	443
Amortisation of acquired intangibles	788	931
Foreign exchange differences on revaluation of inter-group balances	(186)	(234)
Adjusted profit before tax	2,818	1,392
Tax	(207)	390
Adjusted profit after tax	2,611	1,782

27. 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.

28. CAPITAL COMMITMENTS

There were no capital commitments at the end of the financial year (2017: £nil).

29. OPERATING LEASES PAYABLE

	2018 £000	2017 £000
Minimum lease payments under operating leases recognised as an expense in the year	564	582
At the reporting date, the Group has future aggregate minimum lease payments, which fall due as follows:	2018 £000	2017 £000
Land and buildings		
Within one year	603	461
In the second to fifth year inclusive	2,496	1,369
After five years	244	368
Plant and machinery		
Within one year	17	24
In the second to fifth year inclusive	3	20
	3,363	2,242

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.

30. RELATED PARTY TRANSACTIONS

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year, the Company traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £1.0m (2017: £0.7m). The net intercompany balances due from the Company at the year-end totalled £1.3m (2017: due from: £1.5m).

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:	2018 £000	2017 £000
Group and Company		
Fees for services provided as Non-Executive Directors		
Salaries and short-term benefits	120	120
Employer's national insurance & social security costs	11	10
	131	130
Group		
Executive Directors		
Salaries and short-term benefits	335	340
Post-employment retirement benefits	41	40
Employers' national insurance & social security costs	23	24
Share based payment charge	91	73
	490	477
Group		
Other key management		
Salaries and short-term employee benefits	968	1,029
Post-employment retirement benefits	51	51
Employers' national insurance & social security costs	68	67
Share based payment charge	125	66
	1,212	1,213

The Company paid £0.05m (2017: £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 (2017: £nil).

The Company paid £0.018m (2017: £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 £0.003m (2017: £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 (2017: £0.07m). The loan and accrued interest has been repaid in full in 2019.

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

31. 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 (2017: £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

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*Our clients
include these fine
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