ANNUAL REPORT 2020

600

More than 600 clients

Instem has over 600 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.

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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 600 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 and services 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

We are extremely pleased with our continued strong organic growth and increasing abilities to cross sell to existing and new clients.

FINANCIAL HIGHLIGHTS

- Revenues increased 10% to £28.2m (2019: £25.7m)
  - Software as a Service (SaaS) revenues increased 25% to £8.0m (2019: £6.4m)
  - Recurring revenues (annual support and SaaS) increased by 13% to £16.9m (2019: £14.9m)
  - Organic revenue growth (excluding Leadscope acquisition in November 2019) of 3% to £26.3m (2019: £25.5m)
- Adjusted EBITDA* of £5.9m (2019: £4.9m)
- Reported profit before tax of £2.5m (2019: loss of £0.9m)
- Adjusted profit before tax** of £4.0m (2019: £3.2m)
- Fully diluted earnings per share of 11.6p (2019: 5.7p loss per share)
- Adjusted fully diluted earnings per share** of 19.1p (2019: 18.4p)
- Cash balance as at 31 December 2020 of £26.7m (2019: £6.0m) – reflecting both operating cash generation and the oversubscribed placing in July 2020

*Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development costs plus non-recurring items.
**After adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items, impairment of goodwill and capitalised development costs plus amortisation of intangibles on acquisitions.

OPERATIONAL HIGHLIGHTS

- Strong performance despite wider market impact of COVID-19
- Placing raising £15m net of expenses for the Group to accelerate its acquisition strategy
- Continued transition to SaaS deployment, increasing recurring revenue
- New business revenue came from a balanced blend of new and existing clients
- Further expansion of footprint in the Asia-Pacific region

POST PERIOD-END HIGHLIGHTS

- Completed the acquisitions of The Edge Software Consultancy ("The Edge") and d-Wise Technologies Inc ("d-wise")
  - Extending the Group's reach across the drug discovery and development lifecycle
  - Increasing recurring revenues
  - Strengthened relationships with existing clients
- Current cash position of circa £14m following payment of initial acquisition consideration
- Deferred and contingent consideration payable of up to approx. £11.1m

The performance during the Period highlighted our resilience – especially given the COVID-19 backdrop. Our proven model continues to generate strong cash flows while the combination of increasing demand for regulatory-backed solutions and a growing demand for artificial intelligence and in silico solutions in the drug discovery process underpins our confidence in further leveraging our product base. Importantly, we already have good visibility for the current year with growing SaaS revenues and a strong pipeline.

We are extremely pleased with our continued strong organic growth and increasing abilities to cross sell to existing and new clients. Furthermore, we are primed to build on this momentum, having strengthened our proposition post Period end. The recent acquisitions of d-wise and The Edge highlight our ability to add scale and leverage existing customer relationships with a view to further enhancing earnings and profitability, while providing a strong platform for continued growth. In addition, we are continuing discussions with a number of other potential acquisition targets.

Given the structural backdrop and opportunities within our existing client base we are confident that we are well placed to continue growing recurring revenues, margins, and cash generation, and look forward to augmenting organic growth via our ongoing acquisition strategy.

P J Reason
Chief Executive

"The Instem team continued to make an exceptional contribution to life sciences R&D in general and specifically to the global endeavour to rapidly bring safe and effective COVID-19 vaccines and therapies to market."

D Gare
Non-Executive Chairman

Chairman's Statement

The performance of the Group during the Period highlights the resilience of our business model as we generated growing cash flows, revenues and profits despite the wider global economic malaise caused by the COVID-19 pandemic.

Whilst, clearly, this pandemic had, and continues to have, a destabilising effect on a number of sectors and businesses, we were able to take advantage of the continued demand for our leading solutions and services to the global life sciences market. Further, we were able to meet new requirements from customers looking to produce rapid solutions for COVID-19 related drug and vaccine development projects.

Operationally, we continued to perform in line with market expectations - with a 10% increase in revenues year-on-year and the shift towards SaaS continued, further increasing visibility. We also successfully raised £15m net of expenses to accelerate our acquisition programme through the placing of 3,620,690 new ordinary shares. The combination of strong cash flow and funds raised meant that the cash balance at the year-end was £26.7m (2019: £6.0m).

Importantly, the investment in our global infrastructure and IT, made over recent years, meant that we were able to effectively operate across a variety of geographies whilst continuing to deliver solutions to our clients. This investment had been designed to facilitate the requirement for a dispersed and continuously increasing remote business operation. With sections of our workforce already working from home prior to the pandemic, the onset of COVID-19 highlighted our ability to continue delivering solutions remotely with minimal disruption.

STRATEGIC DIRECTION

Our ability to add value and integrate businesses rapidly was highlighted by the performance of Leadscope, which we acquired in November 2019 and which enabled, our *In Silico* Solutions business unit to grow rapidly during the Period.

We believe that the momentum achieved during the Period provides validation of the strategic potential of the business. In particular we were delighted to have made notable progress on a number of fronts during the Period, namely:

- Continued growth in SaaS-based revenues both through new business wins and via the ongoing conversion of existing clients. As such, SaaS-based revenue increased 25% to £8.03m during the Period;
- The expansion of "technology enabled outsourced services", where 2020 revenue was £6.2m (2019: £5.6m):
- Our market leading offering for the SEND services business continued to perform well during the Period.

ACQUISITIVE GROWTH

One of the Group's key long-term objectives has been to acquire complementary technologies or enter adjacent markets – and given the wealth of opportunity, we chose to raise £15m in July 2020 to accelerate this strategy. We are delighted to have acquired d-wise and The Edge post Period end. Both companies bring strong management teams and synergies with our existing business and client base. We believe they will be integrated easily and will quickly be earnings enhancing, whilst also extending our reach from discovery to clinical trial across the drug discovery and development lifecycle.

When we combine the performance of the business in the recent past with the impact of the two recent acquisitions, the step change in the scale of our operations is strategically significant. We are extremely excited about the potential we have for new horizons.

BOARD

While the business has performed extremely well over recent years, the Board recognises that it is not currently fully compliant with the QCA guidelines for corporate governance regarding the independence of non-executive directors. We intend to address this situation through additional non-executive director appointment during the next 12 months. We look forward to updating shareholders on our efforts in due course.

SUMMARY

Finally, on behalf of the Board, I would like to thank and congratulate the entire Instem team, who performed admirably despite the often significant challenges having to adjust to home based working, lock downs, home schooling and the many other impacts of COVID-19. Despite these challenges, the Instem team continued to make an exceptional contribution to life sciences R&D in general and specifically to the global endeavour to rapidly bring safe and effective COVID-19 vaccines and therapies to market.

D Gare
Non-Executive Chairman

STRATEGIC DEVELOPMENT

The Group continued to enhance its position across all parts of the business with growth underpinned by the ongoing move to a SaaS model, resulting in further margin growth during the Period. Importantly, this shift is in train with the majority of clients, providing increased visibility in the overall direction of travel.

The Group has a broad portfolio of products, providing a growing range of solutions to existing and new clients across the drug discovery and development lifecycle, and a strong platform for increased cross-selling and up-selling opportunities. Importantly during the Period, the Group fully integrated Leadscope, which was acquired in November 2019, further enhancing performance.

The focus remains on building on this success, with the Group primed for further acquisitive growth following the recent acquisitions of d-wise and The Edge - having successfully raised £15m net of expenses during the Period to accelerate our acquisition strategy. Active discussions are ongoing with a number of targets, with the aim of further driving value across our existing solutions with the possibility of also broadening our portfolio.

MARKET REVIEW

The market backdrop continues to be favourable for the Group given global population growth and life expectancy underpinning increased demand for successful innovation in life sciences. Increasing amounts of money are being invested in the biotech industry with the pharmaceuticals sector investing heavily in drug development, underpinning a strong pipeline for Instem. The market dynamics were highlighted further by the onset of COVID-19, which presented a number of new opportunities as R&D increased with all the major companies focusing on developing vaccines or therapies.

In the pharmaceutical industry, which represents the largest proportion of Instem's revenue, we refer again to the Pharma R&D Annual Review, the 2021 version of which was released by Pharma Intelligence in March this year. This report shows that the industry grew strongly in the last 12 months with a 4.8% increase (2019: 9.6%) in the total number of drugs in the regulatory stages of global R&D, continuing a multi-year growth trend that, subject to the potential impact of COVID-19, shows no sign of abating. Most relevant to Instem was the 6.0% increase (2019: 13.2%) in the number of drugs at the preclinical (or non-clinical) phase of drug development, that accounted for much of our business.

The constant development of the drug discovery pipeline continues to drive demand for Instem's solutions – enabling companies to provide faster and cheaper routes to market. Importantly, the regulatory-backed Standard for the Exchange of Non-clinical Data ("SEND") continues to underpin longer term opportunity and visibility. Further regulatory-backed business lines were added to the Group's portfolio with the acquisition of Leadscope, providing solutions for the ICH M7 (R1) standard.

BUSINESS PERFORMANCE

STUDY MANAGEMENT AND DATA COLLECTION

Performance here was relatively flat as expected, mainly as a result of the fact that revenue recognition from certain contracts won during the Period will not be recognised until the current financial year, coinciding with client deployment and the commencement of annual support payments.

Encouragingly, the transition to SaaS continued at pace, outstripping management's expectations – with the accelerated growth meaning there were fewer new perpetual software licenses, and correspondingly lower annual support and maintenance fees.

We were delighted to add Biotoxtech, a prominent non-clinical Contract Research Organization in South Korea, as a new client during the Period – further enhancing the Group's footprint in the Asia Pacific region. The contract, worth approximately $1 million, is for Instem to provide a comprehensive package of preclinical data collection, analysis and regulatory submissions management solutions to automate and optimise study related processes.

Separately, the Group was awarded new business with an existing client worth c.£2.2m, which has been extended by a further $0.8m order post period end. The new contracts combined Study Management and Regulatory Solutions products and services, including the expansion of the client's Provantis user base by over 25% - reflecting the continuing growth in non-clinical research and development. Among other things, the funded product development work under this contract will involve Provantis integration with a leading third party digital pathology solution, offering the potential for significant future productivity enhancement and facilitating the work of an increasingly distributed pathologist community.

IN SILICO SOLUTIONS

The Group continued to generate strong *In Silico* Solutions (previously Informatics) revenue growth, which benefitted from strong organic growth as well as a full year's trading from Leadscope, acquired in November 2019. The addition of Leadscope broadened the Group's *in silico* reach, which now incorporates drug discovery through to early deployment and beyond, providing a more rounded offering for existing and new clients.

Having fully integrated Leadscope, which only contributed six-weeks trading in 2019, the Group was able to drive significant *in silico* solutions returns, with comparative revenues more than doubling to £3.3m.

REGULATORY SOLUTIONS

Every drug company is required to submit non-clinical data in the SEND format to the FDA (Food and Drug Administration) as part of the processes for testing and getting approval for a new drug. This means that the combination of the industry's focus on addressing a backlog of SEND conversion work in addition to this standard extending to new study types, provides a solid platform for continued growth.

Instem's technology creates, manages and visualizes SEND datasets while the Group also provides technology-enabled outsourced services, enabling customers to make FDA submissions with confidence. The industry is increasingly looking to unlock silos of information and importantly, customers are starting to contemplate Instem's SEND solutions as a consistent approach to leveraging their valuable historic studies for more efficient and effective research. This is providing a growing source of revenue for the Group, highlighted through a £0.7m top-30 pharmaceutical company contract for conversion of historical studies to the SEND format, won during the Period.

Furthermore, as part of the £2.2m contract with an existing client (mentioned above), Instem will provide SEND staff augmentation support, which will act as an extension of the client's staff to help address both current and growing future demand (and backlog) for SEND study services.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Position and Mission

Instem is a leading provider of IT solutions and services to the life science market with a mission to enable our customers to bring their life enhancing products to market faster.

Our core values underlying our approach to this mission are summarized by the acronym, "RECIPe":

- Offer **Respect** in our dealings with each other
- **Empower** everyone to add real value at every stage
- Be **Creative** in our solutions
- Show **Integrity** in dealing with issues
- Be **Passionate** in our execution
- Leading to **enjoyment** in our working lives

Organisational Governance

At Instem, the Executive management team, under the direction of the Board of Directors strives to attend to the interests of all its stakeholders. Shareholders' interests are also aligned with the long-term incentive plan provided to senior management, achievement of which is based on increasing the Instem share price. Instem's Board of Directors is committed to an appropriate composition of the Board and is currently considering ways of achieving this by engaging institutional shareholders and external advisors for their views. It is the intention that there will be additional non-executive director appointment during the next 12 months.

Instem is committed to having effective governance practices to support its pursuit of its objectives, using appropriate management processes and systems to deliver the highest standards of ethical business conduct and corporate governance.

To further support these goals, a Governance, Risk management and Compliance (GRC) department, has recently been set up with the aim of providing Instem with a collection of capabilities that allows the business to reliably manage governance, identify and manage risks, and to provide an independent audit function to ensure the business remains compliant accordingly.

The Board of Directors is responsible for the oversight of risks facing the Group, and the ESG subjects (such as social, ethical, environmental, legal and regulatory compliance, business model resilience) will, where appropriate, be included within the Group's board meetings which are generally held bi-monthly.

Human Rights

As a vendor of software and associated services, Instem operates in the highly regulated and ethically minded life sciences industry where there is not a prevalence for human rights issues.

Internally, Instem has implemented policies to cover areas such as a modern slavery, anti-bribery, diversity, equality and inclusion, both during the recruitment process and while staff are in employment. The human resources Policy and Culture handbooks, together with our procurement practices ensure Instem and third party staff are treated fairly and employed in accordance with all relevant laws and regulations for the locations in which they are based.

Procedures are in place to support the Group's policy that disabled persons, whether registered or not, shall be considered for employment and subsequent training, career development and promotion.

Employment Practices

Instem's staff are a key component in the success of the business and in respect to this Instem has a dedicated Human Resources team that have implemented policies to support staff during their employment.

Annual staff surveys, incorporating both Gallup Q12 and Great Place to Work concepts, are undertaken by the HR team to ensure our staff have an opportunity to express views on a wide range of employment and social issues. Regular staff reviews offer additional opportunities for such communications as well as to guide training and skills development. The results of the 2020 staff survey demonstrated that 82% of the employees regard Instem as a great place to work.

An internal Kudos Award programme and Thanks Badges are established to recognise exceptional performance.

Health and well-being for staff was promoted through employee communication channels and subsidised healthcare provision.

Due to the impact of COVID-19 on working practices, for 2020 Instem introduced a series of flexible working, homeworking and holiday policies to support the workforce through the difficulties of balancing childcare with work commitments. Regular staff surveys were also conducted and provided staff with an opportunity to provide feedback on any issues they were facing, in order for Instem to provide support as appropriate.

Environment – Our Environmental impact

At Instem, we understand our responsibility to ensure that we are acting responsibly in regard to the environment. For this reason, in 2021 we are implementing a new Environmental Strategy across the group, with the objective of ensuring Instem does not disproportionately impact the environment as part of its business activities.

The environmental strategy will be implemented through a new Environmental Management System (based on the framework of ISO 14001), with the intention of improving the overall environmental performance of the Group, considering both our organisational profile and the local laws and regulation in which Instem offices are located.

An Environmental Management Group will oversee our environmental management system, including representatives from Human Resources, Information Services and Governance, Risk Management and Compliance.

IT Equipment Waste Management

We already ensure that as a Group we are participating in a programme to recycle or re-purpose 100% of all I.T equipment used internally.

In addition to the above requirement one company within the group, which is defined as a manufacturer submitted its annual Waste Electrical and Electronic Equipment (WEEE) return.

Impact of Greenhouse Gas Emission:

As per our mandatory reporting of greenhouse gas emission pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Group has reviewed the requirements of the Environmental Reporting guidelines. For each Company in the group that is qualified as large, their total energy consumption is below 40MWh and therefore the Group and Company are not required to prepare an Energy and Carbon Report to be included within this Annual Report.

Task Force for Climate-related Financial Disclosures (TCFD)

The TCFD was established by the Financial Stability Board to review how the climate-related issues has been reviewed by the financial sector. The TCFD has established a series of recommendations on the disclosures which organisations should include in their annual report, which would cover

- Governance
- Strategy
- Risk Management
- Metrics and targets

As part of our responsibility to manage our contribution to long-term climate change, we will also include the recommendations from the TCFD as part of our new Environmental Strategy. This will assist informing our stakeholders our climate-related financial risks and how we manage these.

Within this year we will seek to ensure that we will develop and implement our actions against the core areas mentioned above and we will evaluate our progress on a regular basis.

Ethical Operating Practices

Instem places a high emphasis on conducting its business with honesty and integrity, and this forms part of our core values. The highest ethical standards are expected of management and employees alike and we continuously strive to create a corporate culture of honesty, integrity, and trust.

Instem has implemented policies such as Anti-Corruption and Anti-Bribery and Corporate Criminal Offences with the HR policy and culture handbooks ensuring staff understand their responsibilities in relation to ethical matters. Ethics and Code of Conduct training is also mandatory training for all staff.

Customer Issues

Instem has a clear strategic objective of meeting its customer's needs and expectations in the products and services that are supplied to them. The following processes help Instem achieve this aim:

Software Development and Deployment

Instem has a comprehensive Software Development Lifecycle and robust testing processes that are overseen by Instem's ISO9001:2015 certified Quality Management System.

SaaS deployment of Instem solutions has enabled our customers to reduce their own I.T. infrastructure. 100% network availability was achieved for SaaS customers during 2020.

Customer Support

Instem offers various support services to help our customers use Instem solutions efficiently and effectively. These include, installation and technical configuration support, training, validation, consultancy and a global helpdesk.

Instem also strives to meet customer's need and expectations by regularly enhancing our software through new functionality and software changes.

Data Protection

Instem has a Group wide data protection policy that sets out processes and the legal conditions that must be satisfied in relation to the obtaining, handling, processing, storage, transferring and destruction of personal information.

Information Security

At Instem, Information Security is embedded into all aspects of business function and we use a combination of technical, administrative and procedural controls to protect IT and information from being compromised. Instem's security controls are managed according to our ISO 27001:2013 certified information security management system (ISMS) and implemented through a combination of people, technology and processes.

Community Involvement and Development

With employees around the globe, we believe it is important that we consider how our presence can benefit the local communities in which we operate. We also consider common cultural threads that unite us as a global organisation, while meeting the needs of our employees in every region.

Elements of this include:

- Supporting a number of Charities including matched-funding of employee fundraising events.
- Partnering with the INSPIRE Safety Pharmacology Horizon 2020 project which includes funding two PhD students.

SECTION 172 STATEMENT

In accordance with section 172 of the Companies Act 2006 the Directors, collectively and individually, confirm that during the year ended 31 December 2020, they acted in good faith and have upheld their 'duty to promote the success of the Group' to the benefit of its stakeholder groups.

Directors acknowledge the importance of forming and retaining a constructive relationship with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Group.

Instem identifies five key stakeholder groups associated with our business:

- Employees
- Clients
- Shareholders
- Partners
- Communities in which we operate

Employees

We recognise that our employees are critical to the success of our business and we focus considerable attention on their positive engagement. This commences from their initial induction into the Group where new joiners are introduced to our Group Values and our Culture Handbook, which provide a framework for ensuring an alignment between Group and employee interests. There is frequent and open communication with employees, who are encouraged to share their opinions, informally and through regular surveys, both attributable and anonymous. We have consistently used the Gallup Q12 engagement questions in our surveys to identify trends and our survey questions have been expanded over recent years to align with those used by the Great Place to Work® organization. Employee-led, location specific Action Groups propose and implement changes to address employee identified opportunities for improvement. Proposals are considered by the Executive management team and actioned accordingly. For further details on our employees, please see page 12.

Clients

We are fortunate to operate in an industry that has a highly collaborative culture with many businesses and scientific related societies and organisations. Instem participates widely in these groups, networking closely with our clients and prospects, often taking a leadership role based on the considerable expertise of our staff and the broad experience we gain from working with many clients. In addition, Instem organizes multiple client engagement forums related to sectors of our market, specific products and common industry practices or regulation. These Special Interest Groups provide input to strategy and operations, allowing us to ensure that our products and services meet the needs of the entire client (and prospect) community.

We survey our clients annually and, more regularly, at the completion of each project and as we address each client support call. These surveys also help us to plan and prioritise changes to our products, services and the broader engagement we have with clients across our business.

Our Client Strategic Advisory Board ("SAB"), comprises senior staff with a broad industry perspective and from a variety of client organisations. The SAB, which meets twice per year, is tasked with informing/validating Instem high-level business, product and service strategy to ensure we maximise our mission to enable our clients to bring their life enhancing products to market faster.

Shareholders

With the professional guidance of our broker and nominated adviser, N+1 Singer, and our financial public relations advisers, Walbrook PR, the Group engages with shareholders through multiple channels, aiming to provide clear and informative updates. Regulated News Service releases are provided regularly, both those required as an AIM-listed business and additional releases to keep shareholders, and the wider market, informed about interesting business developments. We undertake multi-day institutional investor roadshows following the announcement of interim and full-year results, which provides an opportunity to also engage with a wider group of financial analysts and media. We also took the opportunity to engage with institutional shareholders through the 2020 equity fund raising exercise. We typically also organise or attend retail investor events, to ensure all shareholders have access to executive management on a regular basis.

As broker research is typically not available to all shareholders, we engage Progressive Equity Research to produce additional analyst research, which is freely available from the Instem Investor Centre website and through other investor channels. In addition, we subscribe for services from Proactive Investor who make a range of Instem video and audio interviews available for shareholder and wider investor consumption, aggregated with their own financial journalist coverage of Instem news.

While our annual general meeting typically attracts very few independent shareholders, voting on shareholder resolutions provides a formal avenue to receive shareholder feedback and an opportunity for us to consider the implications should resolutions not pass unanimously. We also take note of feedback from shareholder representative groups, who typically provide structured feedback ahead of annual general meetings.

Partners

Instem has a number of strategic partners, with whom we actively engage to enhance our portfolio of world-leading products and services. Formal agreements govern these relationships and nominated Instem employees are responsible for maintaining a regular and open dialogue to ensure ongoing alignment of interests. We frequently engage our partners in the wide variety of methods of client engagement described above to ensure they have a direct two-way line of communication with the end-users.

Communities

Instem has several offices around the world and many employees who work from home. We recognise our role as responsible employers and community representatives and encourage and support our staff in this regard, regularly providing matching funding for charitable activities. There are regular staff organised fund raising events and other activities to support local causes that occur within our offices. Clearly this has been harder to accomplish during office lockdown but we have done so wherever possible, for example we have continued to pay our office cleaning staff despite offices being closed.

With only office (and home) based activities, our environmental impact is generally quite modest although we do encourage efficient energy usage and recycling in office locations (see the ESG report on page 11). We also consider energy usage with our external data centre partners as our clients increasingly adopt our SaaS solutions increasing our data centre footprint. Through investment in technology, staff in the right places and changing business practices, we are also striving to reduce the amount of air travel for staff between our international offices and to our globally dispersed client-base.

Significantly from a global community perspective, we also recognise the considerable role we play in helping our clients to provide their life enhancing products across the world. We continually assess how we can optimise what we do to accelerate the availability of safe and effective drugs, vaccines and medical devices, as well as safer and more effective agrochemicals, that help to increase production to feed an ever-growing world population.

FINANCIAL REVIEW

Key Performance Indicators (KPIs)

The directors review monthly revenue and operating costs to ensure that sufficient cash resources are available for the working capital requirements of the Group. Primary KPIs at the year end were:

	12 mths to 31 Dec 2020 £000	12 mths to 31 Dec 2019 £000	% Change
Total revenue	**28,217**	25,717	10%
Recurring revenue*	**16,941**	14,862	13%
Recurring revenue as a percentage of total revenue	**60%**	58%	+200bps
Adjusted EBITDA**	**5,919**	4,864	22%
Adjusted EBITDA Margin %	**21.0%**	18.9%	+210bps
Cash and cash equivalents	**26,724**	5,957	349%

* Recurring revenue includes Annual support fees and SaaS subscription and support fees.

** Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development costs plus non-recurring costs.

In addition, non-financial KPIs are periodically reviewed and assessed, including customer and staff retention rates.

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.

Total revenues increased by 10% to £28.2m (2019: £25.7m) including Leadscope Inc ('Leadscope') revenue, which was acquired in November 2019. Total organic revenue increased by 3% to £26.3m (2019: £25.7m). Recurring revenue, comprising Support & Maintenance contracts and SaaS subscriptions, increased during the year by 13% to £16.9m (2019: £14.9m). Recurring revenue as a percentage of total revenue was 60% (2019: 58%). Revenue from technology enabled outsourced services increased to £6.2m (2019: £5.6m). Operating expenses increased by 7% in the Period reflecting the addition of the Leadscope cost base, ongoing investment in operational teams and higher third-party costs associated with the revenue mix, offset by savings in business travel due to the pandemic.

Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development costplus non-recurring items (Adjusted EBITDA) increased by 20% to £5.9m (2019: £4.9m). Excluding Leadscope, the total comparable Adjusted EBITDA increased by 13% to £5.3m (2019: £4.7m). The EBITDA margin as a percentage of revenue increased in the year to 21.0% from 18.9% in 2019.

Non-recurring costs in the year of £0.6m (2019: £0.3m) included £0.5m of acquisition costs and £0.1m of legal costs associated with historical contract disputes (2019: £0.2m acquisition costs and £0.1m legal costs).

The reported profit before tax for the year was £2.5m (2019: loss of £0.9m). Adjusted profit before tax (i.e. adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items, impairment of goodwill and capitalised development costs plus amortisation of intangibles on acquisitions) was £4.0m (2019: £3.2m).

The total income tax charge in the year of £0.3m (2019: £0.02m) represents 10.8% of the Group's profit before tax (2019: 2.4% of the Group's loss before tax), with the reduction against the United Kingdom corporate tax rate of 19% due to the Group's ability to receive additional tax relief on its research and development expenditure. This additional relief is expected to continue into future years.

The Group continues to maintain its investment in its product portfolio. Research and development costs incurred during the year were £3.4m (2019: £3.0m), of which £1.2m (2019: £1.3m) was capitalised.

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 currency that gave rise to this risk in 2020 was primarily from realised US dollars transactions. The foreign exchange loss recorded during 2020 was £454k (2019: £41k) which is composed of realised and unrealised gains/losses.

Basic and diluted earnings per share calculated on an adjusted basis were 20.4p and 19.1p respectively (2019: 19.3p basic and 18.4p diluted). The reported basic and diluted earnings per share were 12.7p and 11.9p respectively (2019: (5.7)p basic and (5.7)p diluted).

The period saw strong net cash generated from operating activities of £6.9m (2019: £5.4m), largely due to cash inflow from key contracts, outsourced services, working capital management and a £0.7m tax credit claimed across the Group. In July 2020 the Group successfully raised equity funds from institutional investors amounting to £15.0m, net of expenses, for the purpose of funding its M&A strategy. As a result of this cash injection and the positive organic cash generation achieved in the year, cash balances increased to £26.7m at 31 December 2020, compared with £6.0m as at 31 December 2019.

Following the reporting period end the Group completed the acquisition of The Edge Software Consultancy Ltd. ('The Edge') in March 2021. The acquisition extends the Group into early stage drug Discovery, with software products that improve customer productivity and ensure high-quality data capture in the laboratory. Total consideration payable for The Edge is up to £8.5m with initial consideration of £6.0m satisfied by £4.0m in cash from the equity funds raised in 2020 and £2.0m via the issuance of 391,920 new ordinary shares of 10p each in Instem plc, £0.5m of deferred consideration and up to a further £2.0m payable contingent on The Edge's trading performance in the year ending 31 December 2021.

On 20 March 2021, Instem exchanged contracts to acquire US-based clinical trial technology & consulting leader d-Wise Technologies, Inc ("d-wise"). The acquisition was completed on 1 April 2021. d-wise adds a market leading position to the Group in an attractive adjacent area of clinical trial analysis and submission, with good future visibility through recurring revenue streams and already contracted, high value consultancy projects. The combined strength of Instem and d-wise positions the enlarged Group as the foremost authority and driving force in generating, analysing and leveraging data from Discovery through late-stage Clinical Trials. The total consideration is up to $31m comprising $20m on completion, $8m of deferred consideration and up to a further $3m which is payable contingent upon the future financial performance of d-wise. The initial consideration on completion is being satisfied by $13m in cash and $7m via the issuance of 868,203 new ordinary shares of 10p each in Instem plc. The cash is being funded from the Group's existing financial resources.

The Group's legacy defined benefit pension scheme continues to remain closed to new members and future accrual. The most recent triennial actuarial valuation of the Scheme was due as at 5 April 2020 with the results expected to be announced along with the publication of the Group's interim results for the six-month Period ending 30 June 2021. At 31 December 2020, the IAS19 accounting pension deficit increased by £2.1m to £3.9m (2019: £1.8m). The agreed Group cash contributions currently approximate to £0.5m per annum, payable through to October 2024. The deficit at the 2020 year-end of £3.9m (2019: £1.8m) is represented by the fair value of assets of £12.5m (2019: £12.0m) and the present value of funded obligations of £16.4m (2019: £13.8m), after applying a discount rate of 1.40% (2019: 2.20%).

The table below provides the data for certain performance measures mentioned above:

	2020 £000	2019 £000
Annual support fees	**8,917**	8,418
SaaS subscription and support fees	**8,024**	6,444
Recurring revenue	**16,941**	14,862
Licence fees	**3,477**	3,501
Professional services	**1,603**	1,773
Technology enabled outsourced services	**6,196**	5,581
Total revenue	**28,217**	25,717
EBITDA	**5,313**	4,562
Non recurring costs (see note 3)	**606**	302
***Adjusted EBITDA**	**5,919**	4,864
Profit/(Loss) before tax	**2,549**	(901)
Amortisation of intangibles arising on acquisition	**664**	523
Impairment of goodwill and capitalised development	-	3,175
Non recurring costs (see note 3)	**606**	302
Intercompany foreign exchange loss/(gain)	**208**	61
****Adjusted profit before tax**	**4,027**	3,160
Weighted average number of shares (000's)	**19,652**	17,053
Adjusted diluted earnings per share	**19.4p**	18.4p
Cash at bank	**35,722**	14,955
Bank overdraft	**(8,998)**	(8,998)
Cash balance	**26,724**	5,957

* Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development costs plus 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, impairment of goodwill and capitalised development costs plus amortisation of intangibles on acquisitions.

UPDATE ON HISTORICAL CONTRACT DISPUTE

An historical contractual licence dispute, which does not affect the ongoing operations of the Group, is in the process of being heard by the German courts. The Group is defending the action and strongly believes that the claim should be dismissed. Notwithstanding this, the cost provision made in 2017 has been maintained in the 2020 financial statements. Further announcements will be made as and when appropriate. To date all legal expenses have been expensed.

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. However, the Group's products may be adversely affected if economic and market conditions are unfavourable and revenue may be affected from by impact of accounting or regulatory changes.

Additionally, weak economic conditions, including the potential impact of the trading arrangements between the UK and EU at the end of the Brexit transition period in December 2020 may affect the future performance of the Group and its clients. One area of mitigation for the Group is the presence of its wholly owned subsidiary, Notocord SA, which is based in the EU.

The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme Additionally, the Group has a significant proportion of recurring revenue (circa 60% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Consequently, the Group ensures that it maintains a diversified portfolio in terms of customers, revenue mix, geography and markets.

Foreign currency 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 main currency giving rise to this risk is US dollars. The Group mitigates the foreign currency risk by having both cash inflows and outflows in the relevant foreign currency due to local revenue generation generally offset by a local cost base that creates a natural hedge.

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. 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 continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth. 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 (2019: £0.1m).

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. No customer individually amounts to more than 10% of the Group revenue. At the 2020 year end the Group had a maximum credit risk exposure of £6.1m (2019: £6.9m).

The amounts presented in the statement of financial position are net of impairment provisions.

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

Note 15 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due. The Group's objective is to ensure that adequate facilities are available through use of bank overdrafts and 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 2020, its £0.5m net bank facility was undrawn (2019: £0.5m undrawn). The Group had positive cash reserves of £26.7m at the end of the Period, in addition to the £0.5m undrawn working capital facility, although £2.5m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly. There are no long-term restrictions on the transfer of funds from the Group bank accounts in China. Since the year-end the Group has repatriated £1.6m of cash from China to the UK.

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 2020, 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 2020 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).

Cyber risk

The Group handles much data electronically and is therefore extremely aware of the risks that a cyber-attack could have on its business. It has robust standards in place for establishing and maintaining systems and processes to ensure that the highest standards of data protection are in place. This also applies to any third party who is handling data on behalf of the Group and its customers, such as third-party hosting providers.

Technology risk

Due to the evolving nature of technology platforms there is a risk of obsolescence. The Group's future performance depends on software development, by introducing new and enhancing new products to meet customer demand. If the Group does not respond effectively to technological changes, changes in client requirements and regulatory industry changes then its business may be negatively affected.

The Group monitors this risk and develops strategic development plans to ensure it remains compliant with technological advances. Additionally, the Group produces roadmaps for its key software products through its close relationships with clients and partners. In addition, the Group reviews forthcoming regulations to identify any need to change existing products and to identify opportunities for developing new products and services.

Acquisition risk

Any corporate acquisition has associated integration risk. In respect of every acquisition the Group creates an integration plan with assigned responsibilities to a team led by an appointed project manager for delivering against an agreed timetable. This is monitored closely throughout the integration process and any deviations against the plan are flagged and actioned accordingly. Acquisitions are carefully assessed by the Board to ensure alignment with the Group's acquisition strategy. The Group performs thorough due diligence, supported by the appropriate use of external advisers, to help identify any unexpected material adverse consequences prior to deal completion.

Recruitment and retention risk

As its people are the Group's major asset, it is critical to ensure that it recruits the best staff possible and that these individuals are rewarded and developed appropriately. If the Group is unable to attract and retain qualified personnel it is unlikeyly to meet its growth objectives and stakeholder expectations. The Group has a global HR team that manages the process of ensuring the staff benefit and reward packages are incentivising for both recruitment and retention purposes. This includes benchmarking against peers and industry norms and considering staff feedback through regular performance review. During 2020 the Group implemented an all-staff share scheme for the first time.

COVID-19

The risk to the Group, as for any business, is that the COVID-19 pandemic impacts new and existing business activities as clients and suppliers focus on short term priorities arising from pandemic or struggle to remain in business.

The Group remains well placed and has seen minimal impact from COVID-19, with working from home practices implemented and the majority of business relatively unaffected. There was a small shortfall in Professional Services revenue compared with budget due to travel restrictions preventing on-site service delivery plus Academia was closed for part of the year. It is expected that a small element of revenue slippage will move into the current year as we fulfil our strong services backlog.

POST PERIOD-END

The Group completed the earnings enhancing acquisitions of The Edge and d-wise. The Edge, which was acquired for up to £8.5m, is a discovery software solutions provider with an established client base across the pharmaceutical, biotechnology, biopharmaceutical and animal health sectors. Its addition further broadens Instem's reach into the closely adjacent Discovery Study Management market.

d-wise, which is a US-based clinical trial technology & consulting leader, was acquired for up to $31.0m. The d-wise team and its solutions will create a new operating segment at Instem, Clinical Trial Acceleration Solutions, which will focus on leveraging the combined capabilities to further expand areas of application.

OUTLOOK

The performance during the Period highlighted our resilience – especially given the COVID-19 backdrop. Our proven model continues to generate strong cash flows while the combination of increasing demand for regulatory-backed solutions and a growing demand for artificial intelligence and *in silico* solutions in the drug discovery process underpin our confidence in further leveraging our product base.

We are extremely pleased with our continued strong organic growth and increasing ability to cross sell to existing and new clients. Furthermore, we are primed to build on this momentum, having strengthened our proposition post period end. The recent acquisitions of d-wise and The Edge highlight our ability to add scale and leverage existing customer relationships with a view to further enhancing earnings and profitability, while providing a strong cornerstone for continued growth. In addition, we are continuing discussions with a number of other potential acquisition targets.

Given the structural backdrop and opportunities within our existing client base we are confident that we are well placed to continue growing recurring revenues, margins, and cash generation, and look forward to augmenting organic growth via our ongoing acquisition strategy.

P J Reason

Chief Executive

10 April 2021

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 device 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.

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 https://investors.instem.com/corporate/governance.php.

As noted in the Organisational Governance section of the Strategic Report above. The Board seeks to maintain a strong governance ethos throughout the Group and is actively taking steps to address any shortcomings, such as the composition of the Board. 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 (KPIs) and financial results together with comparison of these against expectations. KPIs assessed are both financial and non-financial.

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

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.

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. Due to the closure of the UK head office during the pandemic, all meetings were held by remote video calls.

	No. of meetings attended / No. of meetings invited to attend			
	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
P J Reason	10/10	5/5	1/1	1/1
N J Goldsmith	10/10	5/5	0/0	1/1
Non-Executive Directors				
D Gare	10/10	5/5	2/2	1/1
D M Sherwin	10/10	5/5	2/2	1/1
M F McGoun	10/10	5/5	2/2	1/1

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 Group.

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

The Remuneration Committee:

a. ensures that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Group but also ensures that the Group avoids paying more than is necessary for this purpose;

b. considers the remuneration packages of the executive directors and any recommendations made by the Chief Executive Officer for changes to their remuneration packages including in respect of bonuses (including associated performance criteria), other benefits, pension arrangements and other terms of their service contracts and any other matters relating to the remuneration of or terms of employment applicable to the executive directors that may be referred to the Remuneration Committee by the Board;

c. oversees and reviews all aspects of the Group's share option schemes including the selection of eligible directors and other employees and the terms of any options granted;

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

e. considers and makes recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those required by law or by the London Stock Exchange.

The Chairman of the Remuneration Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee produces an annual report which is included in the Group's annual report and accounts.

The Remuneration Committee is authorised to:

a. investigate any activity within its terms of reference;

b. seek any information it requires from any employee of the Group;

c. assess the remuneration paid by other UK listed companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors' remuneration is appropriate for the purpose of making their remuneration competitive or otherwise comparable with the remuneration paid by such companies; and

d. obtain, at the Group's expense, outside legal or other independent professional advice, including independent remuneration consultants, when the Remuneration Committee reasonably believes it is necessary to do so and secure the attendance of such persons to meetings as it considers necessary and appropriate.

NOMINATION COMMITTEE

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

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.

Corporate Governance Statement

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. Cash bonuses amounting to £18,000 were payable to executive directors in respect of the year ended 31 December 2020 (2019: £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 Group or any subsidiary of the Group.

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 with a notice period of three months.

The emoluments paid or payable to directors in respect of the year ended 31 December 2020 were as follows:

	Salary and Fees	Bonus	Benefits	Pension	2020 Total	2019 Total
Executives						
P J Reason*	226	11	8	31	**276**	261
N J Goldsmith	128	7	5	13	**153**	141
Non-executives						
D Gare	65	-	-	-	**65**	60
D M Sherwin	33	-	-	-	**33**	30
M F McGoun	40	-	-	-	**40**	30
Total	**492**	**18**	**13**	**44**	**567**	**522**

* The remuneration in respect of P J Reason is payable in US Dollars and translated at the average rates as disclosed on page 57. The total remuneration paid in the year was USD 355,000 (2019: USD 332,000).

DIRECTORS' AND EMPLOYEES' SHARE OPTIONS

	Exercise price (£)	Issue date	Held at 31 Dec 2019	Granted during year	Exercised during year	Lapsed during year	Held at 31 Dec 2020
P J Reason Ordinary shares	1.750	13/10/2010	187,427	-	(187,427)	-	-
	0.900	14/01/2013	23,429	-	-	-	23,429
	Nil	22/02/2018	80,000	-	-	-	80,000
	Nil	26/06/2020	-	76,000	-	-	76,000
							179,429
N J Goldsmith Ordinary shares	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
	Nil	26/06/2020	-	74,000	-	-	74,000
							251,500
Employees Ordinary shares	1.750	13/10/2010	50,714	-	(50,714)	-	-
	2.220	17/10/2011	8,667	-	-	-	8,667
	0.900	14/01/2013	22,975	-	-	-	22,975
	0.100	11/02/2015	40,584	-	-	-	40,584
	0.100	29/07/2015	78,125	-	-	-	78,125
	0.100	21/11/2015	25,258	-	-	-	25,258
	0.100	27/05/2016	6,480	-	-	-	6,480
	0.100	03/05/2017	37,500	-	-	(15,000)	22,500
	Nil	22/02/2018	240,000	-	-	-	240,000
	0.100	22/02/2019	4,644	-	-	(4,644)	-
	Nil	27/04/2020	-	118,728	-	(2,144)	116,584
	Nil	06/05/2020	-	24,000	-	-	24,000
	Nil	19/05/2020	-	243,000	-	-	243,000
							828,173
Total			**983,303**	**535,728**	**(238,141)**	**(21,788)**	**1,259,102**

Approved by the Board and signed on its behalf by:

M F McGoun

Independent Non-Executive Director

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2020.

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 10 to 21.

STRATEGIC REPORT

The Group has chosen in accordance with Companies Act 2006, section 414C (11) to set out in the Group's strategic report on pages 10 to 21 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.

BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Groups' response to the requirment of the business relationship with suppliers, customers and others is included within the Section 172 Statement on page 13 to 15.

DIRECTORS' RESPONSIBILITY UNDER SECTION 172

The Group's response to the requirements of section 172 of the Companies Act 2006 is included within the Strategic Report.

DIRECTORS' RESPONSIBILITY UNDER GREEN HOUSE GAS EMISSIONS AND ENERGY CONSUMPTION

The Group has reviewed the requirements of the Environmental Reporting guidelines, for each Company in the group that qualifies as large their total energy consumption is below 40MWh and therefore the Group and Company is not required to prepare an Energy and Carbon 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.

Like most businesses worldwide the Group continues to deal with the impact of COVID-19, with its primary concern being for the safety and wellbeing of its staff and their families. The Group has the benefit of operating in a sector where significant worldwide focus is on identifying vaccines and therapies for COVID-19, with a number of our customers directly involved in this work. While the Group experienced some disruption to demand for its products and services during the year there were also some increases in customer demand. Whilst approximately half of the Group's revenues are generated from North America, the remaining revenues are spread across the world and so there is no dependence on one territory thus spreading the risk. The Group benefits from having no supply chain and no distribution network to rely on and has the added benefit of having systems and processes established to enable its workforce to work effectively from home across all of its sites worldwide.

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. Thus far we have not observed any material impact on our overall existing business or in the level of new business opportunities that are being presented to us in the markets in which we operate. We saw a little slippage in customers placing new business during the first quarter of 2020, but we believe this is unlikely to be a long term issue but instead caused whilst our customers were focused on managing their own businesses, with changes from introducing staff self-isolation and working from home.

The Group cash balance at the year end included £0.9m ($1.1m) of US government Paycheck Protection Program loans received during the year. It is expected that these will be forgiven during 2021.

EVENTS AFTER THE REPORTING PERIOD

The events occurred after the balance sheet date were disclosed in accordance with IAS 10, 'Events after the reporting period'. Details are provided in note 31 to the Consolidated Financial Statements.

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 28 to 29.

DIRECTORS AND THEIR INTERESTS

The interests of the directors who held office at 31 December 2020 (2019: as at 3 June 2020) were as follows:

	2020 No. of Shares	2019 No. of Shares
DG 2008 Discretionary Settlement	538,427	578,427
D M Sherwin	750,000	1,180,066
P J Reason	730,714	685,287
M F McGoun	-	-
N J Goldsmith	-	-

Directors' interests in share options are detailed in the Remuneration report on pages 28 to 29 .

POLITICAL DONATIONS

The Group made no political donations in 2020 or 2019.

FINANCIAL INSTRUMENTS

The Group's objectives and policies on financial instruments are set out in note 20 to the financial statements.

INDEMNITY OF OFFICERS AND DIRECTORS

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

ANNUAL GENERAL MEETING

The Annual General Meeting ('AGM') of the Company will be held on 27 May 2021. The resolutions to be proposed at the AGM, together with explanatory notes, appear in a separate notice of AGM which is sent to all shareholders. A proxy card for registered shareholders is distributed along with the notice.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITOR

Pursuant to s489 of the Companies Act 2006, a resolution to re-appoint Grant Thornton as auditor will be put to the members at the forthcoming Annual General Meeting.

On behalf of the Board

P J Reason

Director

10 April 2021

The directors are responsible for preparing the Strategic Report and Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Accounting Standards (IAS) in conformity. 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 and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards (IAS) in conformity have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors 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 the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

OPINION

Our opinion on the financial statements is unmodified

We have audited the financial statements of Instem plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Cash Flows, the Consolidated and Company Statements 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 accounting standards in conformity with the requirements of the Companies Act 2006, 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the 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 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 are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and our results arising with respect to that evaluation, is included in the key audit matters section of our report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

OVERVIEW OF OUR AUDIT APPROACH

Overall materiality:

Group: £282,000 (2019: £257,000), which represents 1% of the group's revenue.

Parent company: £149,000 (2019: £133,000), which represents 0.3% of the parent company's total assets.

Key audit matters were identified as;

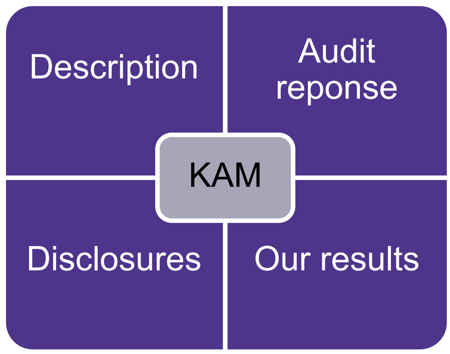
- Improper revenue recognition
- Carrying value of goodwill
- Going concern

Our auditor's report for the year ended 31 December 2019 included one key audit matter that has not been reported as a key audit matter in our current year's report. This relates to the carrying value of acquired intangibles, which was a key audit matter in the prior year specifically in relation to intangibles acquired on the acquisition of Leadscope Inc in that year.

We have performed the following audit work:

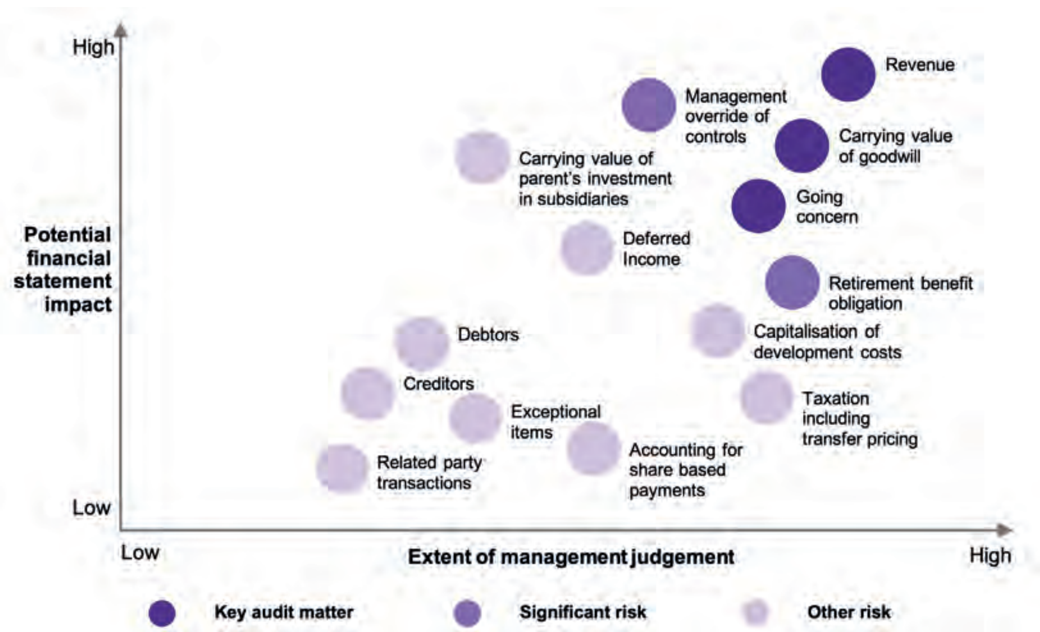
- an audit of the financial statements of the parent company and of the financial information of three of the components using component materiality (full scope audit);
- an audit of one or more account balances, classes of transactions or disclosures of the component (specified audit procedures) of nine further components to gain sufficient appropriate audit evidence at the group level; and
- analytical procedures at group level for the remaining three components in the group during the year.

KEY AUDIT MATTERS



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

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



KEY AUDIT MATTER – GROUP

Improper recognition of revenue

We identified the improper recognition of revenue for technology enabled outsourced services and professional services (service revenue) as one of the most significant assessed risks of material misstatement due to fraud.

There is a risk that revenue has been misstated through improper revenue recognition and due to the complexity of these revenue streams there is a risk that revenue recognition criteria is not being properly applied.

There is management judgement involved in determining the amount of revenue that is accrued at year end for service revenue on open projects which are recognised on a percentage completion basis as they are incomplete at the year end. We consider the risk to be heightened for service revenue and this has formed the focus of our work. We considered this risk to be specific to the accuracy and occurrence assertions.

We further consider that there is a significant risk present in relation to new contracts for service revenue entered into during the year ended 31 December 2020 (FY20), specifically with regard to whether the contract has been assessed and revenue is recognised appropriately in accordance with IFRS 15 'Revenue from Contracts with Customers'.

Determining the amount of revenue to be recognised requires management to make significant judgements. These judgements include determining how many performance obligations there are within each contract and the period in which these obligations will be fulfilled and recognised as revenue, based on the group's accounting policies.

This is considered to be a key audit matter given the importance of reported revenue to key stakeholders.

HOW OUR SCOPE ADDRESSED THE MATTER – GROUP

In responding to the key audit matter, we performed the following audit procedures:

- Assessing the group's revenue accounting policies to check compliance with IFRS 15;
- Identifying and assessing new key contracts for service revenue across the Group and considered and challenged whether revenue has been recognised correctly in accordance with IFRS 15 by considering performance obligations under each key contract. We obtained evidence of achievement of those obligations by the Group, including assessment of management's accounting papers where available.
- Challenging a number of significant judgements made by management in respect of service revenue recognised as per the IFRS 15 accounting policy, including the stated and implicit promises made to customers at the point of sale through an assessment of the contracts and of upgrades provided;
- Testing a sample of service revenue contracts, focusing on contracts which remain open at the year end and are recognised on a percentage completion basis. We performed recalculations of the element of service revenue to be recognised as completed, agreeing to underlying signed statements of work, contracted hourly rates and timesheets, and invoices to ensure the appropriateness of revenue recognition;
- Recalculating any accrued or deferred income balances at the year-end for service revenue contracts selected as part of our revenue test of detail procedures; and
- Testing of cut off for service revenue by confirming the appropriate allocation of sales to the correct perio

KEY AUDIT MATTER – GROUP

Relevant disclosures in the Annual report and financial statements 2020

The Group's accounting policy on revenue recognition is shown in 'Accounting policies' within the financial statements on pages 54 to 56; and related disclosures are included in Note 1 'Revenue from contracts with customers'.

Carrying value of the group's goodwill

We identified the carrying value of the group's goodwill as one of the most significant assessed risks of material misstatement due to error.

Management's goodwill impairment analysis is completed on an individual cash generating unit ('CGU') basis. The process of assessing whether an impairment exists under International Accounting Standard (IAS) 36 'Impairment of Assets' is complex. Calculating the value in use, through forecasting cash flows related to CGUs and the determination of the appropriate discount rate and other assumptions to be applied is highly judgemental and as a result of the subjectivity of selecting the assumptions, can be subject to management bias. The selection of certain inputs into the cash flow forecasts can significantly impact the results of the impairment assessment.

We identified significant management judgements in the following areas:

- The weighted average cost of capital ('WACC') for each CGU used to discount the cash flows within the group's impairment assessment;
- The revenue growth rate used in the impairment forecasts; and
- Allocation of revenue and costs across the group.

HOW OUR SCOPE ADDRESSED THE MATTER – GROUP

Our results

Our audit testing did not identify any material misstatements in relation to revenue recognition.

In responding to the key audit matter, we performed the following audit procedures:

- Evaluating the group's accounting policies to determine their compliance with the requirements of IAS 36;
- Testing the accuracy of management's forecasting through a comparison of budget to actual data;
- Challenging the appropriateness of management's assumptions and sensitivities relating to the fair value calculations of the CGUs and estimated future cash flows, including the growth rate and discount rate used to assess the level of headroom;
- Obtaining and assessing management's allocation of revenue and costs to each CGU in the prepared forecasts in accordance with the transfer pricing policy;
- Assessing and challenging the carrying value of goodwill in management's impairment assessments. Our challenge focused on the assumptions regarding allocation of future revenues from the underlying CGU relative to historic performance, including whether the supporting cash flow forecasts factor in COVID-19 considerations and are in accordance with Board approved forecasts;
- Performing sensitivity analysis to understand the impact of any reasonably possible changes in assumptions, and evaluate the headroom available from different outcomes to assess whether goodwill could be impaired; and
- Assessing whether the group's disclosures with respect to the carrying value of the Group's goodwill are adequate and the key assumptions are disclosed.

KEY AUDIT MATTER – GROUP	HOW OUR SCOPE ADDRESSED THE MATTER – GROUP
Relevant disclosures in the Annual report and financial statements 2020 The Group's accounting policy on goodwill is shown in 'Accounting Policies' within the financial statements on page 61 and relevant disclosures in respect of the carrying value of the group's goodwill are presented in Note 11 'Intangible Assets'.	**Our results** Our audit testing did not identify any material impairment of goodwill. We concluded that the assumptions used in management's impairment model were appropriate. We consider the disclosures with respect to the carrying value of the group's goodwill to be in accordance with IAS 36.
Going concern We identified to going concern as one of the most significant assessed risks of material misstatement due to fraud and error as a result of the judgment required to conclude whether there is a material uncertainty related to going concern. As stated in page 53, Covid-19 is one of the most significant economic events currently faced by the UK and at date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group and parent company as such increases the extent judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. In undertaking their assessment of going concern for the group, the Directors considered the impact of Covid-19 related events in their forecast future performance of the Group and anticipated cash flows.	In responding to the key audit matter, we performed the following audit procedures: • Obtaining and assessing management's paper and assessment of going concern, including the forecasts covering the period to 31 December 2022 and challenging the assumptions used in the cash flow forecasts, as approved by the Board; • Analysing how the reasonableness of forecasts and related disclosures may be impacted by the inherent risk associated with Covid-19 and how this may affect the Group's and the parent company's financial resources or ability to continue operations over the going concern period; • Obtaining management's extreme downside scenario, which reflected management's assessment of uncertainties, and which management considered to be severe but plausible. We evaluated the assumptions regarding the revenue and costs during the forecast period and the proposed mitigating cost savings under this scenario; • Considering whether assumptions are consistent with our understanding of the business obtained during the course of the audit, the impairment forecast assumptions and the changing external circumstances arising from the government's Covid-19 interventions; • Assessing the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods to post year end management accounts; • Testing the adequacy of the supporting evidence for the cash flow forecast and performing arithmetical checks on the forecast; and • Assessing the policies and disclosures in respect of going concern given in the financial statements for appropriateness.

KEY AUDIT MATTER – GROUP	HOW OUR SCOPE ADDRESSED THE MATTER – GROUP
Relevant disclosures in the Annual report and financial statements 2020 The Group's accounting policy on going concern is shown in 'Accounting policies' within the financial statements on page 52.	**Our results** We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£282,000, which is 1% of the group's revenue.	£149,000, which is 0.3% of the parent company's total assets.
Significant judgements made by auditor in determining the materiality	Revenue is considered to be the most appropriate benchmark for the group because it is a key performance indicator used by the Directors to report to investors on the financial performance of the Group. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2019 to reflect the year-on-year revenue growth.	Total assets is considered to be the most appropriate benchmark for the parent company because the parent company's principal activity is that of a holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2019 to reflect the higher level of total assets in the parent company at the year end.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£197,400, which is 70% of financial statement materiality.	£104,300, which is 70% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements: • consideration of control deficiencies identified in prior years; • whether there were any significant adjustments made to the group's financial statements in prior years; and • assessment for any significant changes in business objectives and strategy of the group.	In determining performance materiality, we made the following significant judgements: • consideration of control deficiencies identified in prior years; • whether there were any significant adjustments made to the parent company's financial statements in prior years; and • assessment for any significant changes in business objectives and strategy of the parent company.

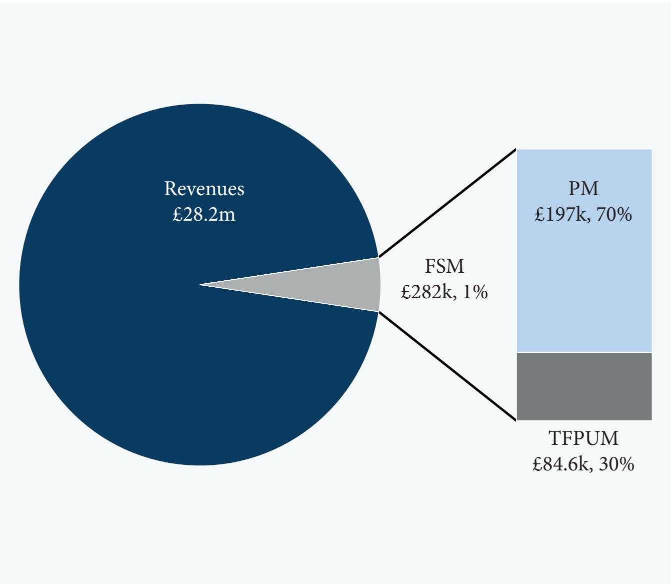
OUR APPLICATION OF MATERIALITY (CONTINUED)

Materiality was determined as follows:

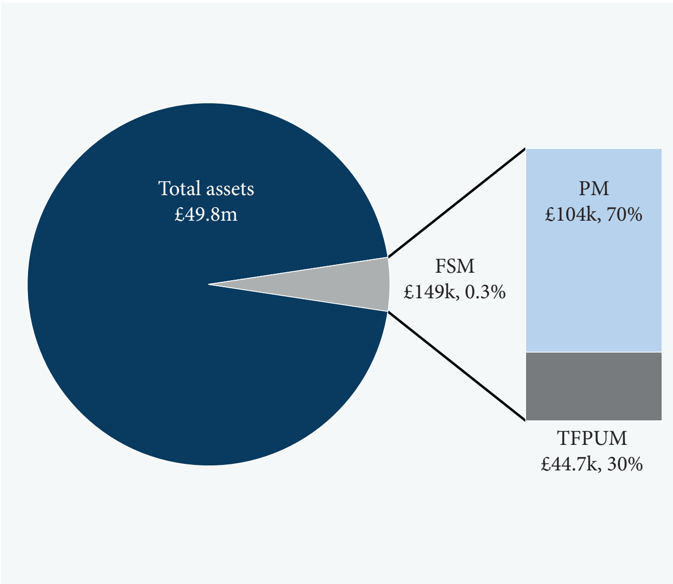
Materiality measure	Group	Parent company
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for related party transactions and directors' remuneration.	We determined a lower level of specific materiality for related party transactions and directors' remuneration.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£14,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£7,450 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed a risk-based audit that requires an understanding of the group and the parent company's business, and in particular matters related to:

Understanding the group, its components and their environments, including group-wide controls

- The engagement team obtained an understanding of the group, its environment and risk profile, including group-wide controls, and assessed the risks of material misstatement at the group level. We considered the structure of the group, its processes and controls and the industries in which the components operate.

Identifying significant components and type of work to be performed on financial information of parent and other components

- In order to address the risks identified, the engagement team performed an evaluation of identified components to assess the significant components and to determine the planned audit response based on a measure of materiality, calculated by considering the component's significance as a percentage of the group's total assets, revenue and profit before taxation. Of the group's sixteen components, we identified four which, in our view, required an audit of their financial information (full scope audit), either due to their size or their risk characteristics. As a result of this, we performed an audit of the financial statements of the parent company and of the financial information of three of the components using component materiality;
- We identified improper recognition of revenue, the carrying value of the group's goodwill and going concern as key audit matters and the audit procedures performed in respect of these have been included in the key audit matters section of our report;
- We performed specified audit procedures over certain balances and transactions of nine components to give appropriate coverage of balances. Together, the components subject to full-scope audits and specified audit procedures were responsible for 99% of the group's revenue, 86% of the group's profit before tax, 98% of group's EBITDA and 95% of the group's total assets; and
- We performed analytical procedures at group level over the remaining three components. These procedures, together with the additional procedures outlined above, performed at the group level gave us the audit evidence we needed for our opinion on the group financial statements as a whole. All audit work has been undertaken by the group engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, 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.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

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 UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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 FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement, 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the group and the industry in which they operate. We determined that the most significant laws and regulations are: international accounting standards in conformity with the requirements of the Companies Act 2006, Quoted Companies Alliance (QCA) Corporate Governance Code and taxation laws;
- We obtained an understanding of how the parent company and the group are complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the parent company's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the group engagement team included:

    - Assessing the design and implementation of controls management has in place to prevent and detect fraud;
    - Obtaining an understanding of how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
    - Challenging assumptions and judgments made by management in its significant accounting estimates;
    - Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
    - Engaging with our internal tax specialist to address the risk of non-compliance of tax legislation;
    - Assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
    - Making inquiries, in respect of fraud, of those outside the finance team, including key management and the project management team.
- The assessment of the appropriateness of the collective competence and capabilities of the group engagement team included consideration of the group engagement team's knowledge of the industry in which the client operates, and the understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation; and
- The engagement team's discussions in respect of potential non-compliance with laws and regulations and fraud included the risk of fraud in revenue recognition. We identified improper revenue recognition as a key audit matter. The key audit matters section of our audit report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

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.

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
10 April 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**Year ended 31 December 2020 £000**	Year ended 31 December 2019 £000
REVENUE	1	**28,217**	25,717
Employee benefits expense	2	**(16,508)**	(13,609)
Other expenses	2	**(5,790)**	(7,244)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS (ADJUSTED EBITDA)		**5,919**	4,864
Depreciation	13	**(138)**	(155)
Amortisation of intangibles arising on acquisition	11	**(664)**	(523)
Amortisation of internally generated intangibles	11	**(736)**	(755)
Amortisation of right of use assets	8	**(572)**	(607)
Impairment of goodwill and capitalised development	11	-	(3,175)
OPERATING PROFIT/(LOSS) BEFORE NON-RECURRING COSTS	2	**3,809**	(351)
Non-recurring costs	3	**(606)**	(302)
OPERATING PROFIT/(LOSS) AFTER NON-RECURRING COSTS		**3,203**	(653)
Finance income	4	**38**	7
Finance costs	5	**(692)**	(255)
PROFIT/(LOSS) BEFORE TAXATION		**2,549**	(901)
Taxation	10	**(275)**	(22)
PROFIT/(LOSS) FOR THE YEAR		**2,274**	(923)
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Items that will not be reclassified to profit and loss account:			
Actuarial (loss)/gain on retirement benefit obligations		**(2,537)**	30
Deferred tax on actuarial gain/(loss)		**518**	**(6)**
Deferred tax on share options		**322**	-
		(1,697)	24
Items that may be reclassified to profit and loss account:			
Exchange differences on translating foreign operations		**10**	(208)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(1,687)**	(184)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**587**	(1,107)
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**2,274**	(923)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**587**	(1,107)
Earnings per share			
Basic	26	**12.3**	(5.7p)
Diluted	26	**11.6**	(5.7p)

The notes on pages 66 to 107 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020 | Company Registration No. 07148099

	Note	2020 £000	2020 £000	2019 £000	2019 £000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	11	**18,023**		18,108	
Property, plant and equipment	13	**238**		237	
Right of use assets	8	**1,742**		2,165	
Finance lease receivables	8	**128**		175	
TOTAL NON-CURRENT ASSETS			**20,131**		20,685
CURRENT ASSETS					
Inventories	14	**50**		36	
Trade and other receivables	15	**6,093**		6,921	
Finance lease receivables	8	**41**		39	
Tax receivable	21	**724**		1,158	
Cash and cash equivalents	16	**26,724**		5,957	
TOTAL CURRENT ASSETS			**33,632**		14,111
TOTAL ASSETS			**53,763**		34,796
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	**2,958**		2,662	
Deferred income	18	**9,878**		8,942	
Tax payable	21	-		404	
Financial liabilities	19	**268**		301	
Lease liabilities	8	**608**		565	
Deferred tax liabilities	22	**90**		506	
TOTAL CURRENT LIABILITIES			**13,802**		13,380
NON-CURRENT LIABILITIES					
Financial liabilities	19	**1,131**		559	
Retirement benefit obligations	23	**3,868**		1,804	
Provision for liabilities	24	**250**		250	
Lease liabilities	8	**1,476**		2,004	
TOTAL NON-CURRENT LIABILITIES			**6,725**		4,617
TOTAL LIABILITIES			**20,527**		17,997
EQUITY					
Share capital	25	**2,048**		1,662	
Share premium	27	**28,172**		13,135	
Merger reserve	27	**2,432**		2,432	
Share based payment reserve	27	**930**		654	
Translation reserve	27	**92**		82	
Retained earnings	27	**(438)**		(1,166)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**33,236**		16,799
TOTAL EQUITY AND LIABILITIES			**53,763**		34,796

The financial statements on pages 44 to 107 were approved by the board of directors and authorised for issue on 10 April 2021 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2020 Company Registration No. 07148099

		2020		2019	
	Note	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets		**27**		-	
Investments	12	**26,620**		26,192	
TOTAL NON-CURRENT ASSETS			**26,647**		26,192
CURRENT ASSETS					
Trade and other receivables	15	**3,330**		5,001	
Cash and cash equivalents	16	**20,269**		1,128	
TOTAL CURRENT ASSETS			**23,599**		6,129
TOTAL ASSETS			**50,246**		32,321
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	**8,468**		6,659	
TOTAL CURRENT LIABILITIES			**8,468**		6,659
TOTAL LIABILITIES			**8,468**		6,659
EQUITY					
Share capital	25	**2,048**		1,662	
Share premium	27	**28,172**		13,135	
Merger reserve	27	**14,066**		14,066	
Share based payment reserve		**929**		654	
Retained earnings	27	**(3,437)**		(3,855)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			**41,778**		25,662
TOTAL EQUITY AND LIABILITIES			**50,246**		32,321

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own statement of comprehensive income and related notes. The Company's profit for the year was £266,000 (2019: £4,023,000).

The notes on pages 66 to 107 form part of these financial statements.

The financial statements on pages 44 to 107 were approved by the board of directors and authorised for issue on 10 April 2021 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 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before taxation			**2,549**		(901)
Adjustments for:					
Depreciation	13		**138**		155
Amortisation of intangibles	11		**1,400**		1,278
Depreciation of right of use assets	8		**572**		607
Impairment of goodwill and capitalised development costs	11		-		3,175
Share based payment charge	2		**427**		75
Retirement benefit obligations	23		**(512)**		(475)
Finance income	4		**(38)**		(7)
Finance costs	5		**692**		255
Loss on disposal of fixed assets			**2**		-
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**5,230**		4,162
Movements in working capital:					
(Increase)/decrease in inventories			**(14)**		1
Decrease in trade and other receivables			**742**		790
Increase in trade, other payables and deferred income			**1,410**		693
NET CASH GENERATED FROM OPERATIONS			**7,368**		5,646
Finance income	4		**38**		7
Finance costs			**(648)**		(255)
Income taxes			**183**		25
NET CASH GENERATED FROM OPERATING ACTIVITIES			**6,941**		5,423
CASH FLOWS FROM INVESTING ACTIVITIES					
Capitalisation of development costs and software	11	**(1,272)**		(1,344)	
Purchase of property, plant and equipment	13	**(141)**		(91)	
Payment of deferred consideration		**(277)**		-	
Purchase of subsidiary undertakings (net of cash acquired)		-		(1,268)	
NET CASH USED IN INVESTING ACTIVITIES			**(1,690)**		(2,703)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**15,423**		648	
Proceeds from government support loan		**810**		-	
Lease interest payment		-		(2)	
Repayment of lease liabilities	8	**(621)**		(693)	
Receipts from sublease of asset		**40**		7	
Repayment of lease capital		**(15)**		(34)	
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES			**15,637**		(74)
NET INCREASE IN CASH AND CASH EQUIVALENTS			**20,888**		2,646
Cash and cash equivalents at start of year			**5,957**		3,572
Effects of exchange rate changes on the balance of cash held in foreign currencies			**(121)**		(261)
CASH AND CASH EQUIVALENTS AT END OF YEAR	16		**26,724**		5,957

The notes on pages 66 to 107 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020		2019	
		£000	**£000**	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before taxation			**266**		(4,023)
Adjustments for:					
Amortisation of intangibles			**2**		-
Finance income			**(57)**		-
Finance cost			**-**		243
Impairment of investment			**-**		2,810
CASH FLOWS USED IN OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL			**211**		(970)
Movements in working capital:					
Decrease/(increase) in trade and other receivables			**1,670**		(1,014)
Increase in trade and other payables			**1,809**		2,064
NET CASH USED IN OPERATIONS			**3,690**		80
Finance income			**57**		-
Finance costs			**-**		(243)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES			**3,747**		(163)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of software intangible		**(29)**		-	
NET CASH USED IN INVESTING ACTIVITIES			**(29)**		-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		**15,423**		648	
NET CASH GENERATED FROM FINANCING ACTIVITIES			**15,423**		648
NET INCREASE IN CASH AND CASH EQUIVALENTS			**19,141**		485
Cash and cash equivalents at start of year			**1,128**		643
CASH AND CASH EQUIVALENTS AT END OF YEAR	16		**20,269**		1,128

The notes on pages 66 to 107 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Note	Share capital £000	Share premium £000	Merger reserve £000	Shares based payment reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 31 December 2018		**1,592**	**12,535**	**1,598**	**1,010**	**290**	**(630)**	**16,395**
Adjustment on initial application of IFRS 16		-	-	-	-	-	(68)	(68)
Adjusted balance as at 1 January 2019		**1,592**	**12,535**	**1,598**	**1,010**	**290**	**(698)**	**16,327**
Loss for the year		-	-	-	-	-	(923)	(923)
Other comprehensive (expense)/ income for the year		-	-	-	-	(208)	24	(184)
Total comprehensive (expense)/ income		-	-	-	-	(208)	(899)	(1,107)
Shares issued	25	70	600	834	-	-	-	1,504
Share based payment	9	-	-	-	75	-	-	75
Reserve transfer on exercise of share options		-	-	-	(431)	-	431	-
Balance at 31 December 2019		**1,662**	**13,135**	**2,432**	**654**	**82**	**(1,166)**	**16,799**
Profit for the year		-	-	-	-	-	2,274	2,274
Other comprehensive income/ (expense) for the year		-	-	-	-	10	(1,697)	(1,687)
Total comprehensive income		-	-	-	-	10	577	587
Shares issued	25	386	15,037	-	-	-	-	15,423
Share based payment	9	-	-	-	427	-	-	427
Reserve transfer on lapse of share options		-	-	-	(65)	-	65	-
Reserve transfer on exercise of share options		-	-	-	(86)	-	86	-
Balance as at 31 December 2020		**2,048**	**28,172**	**2,432**	**930**	**92**	**(438)**	**33,236**

The notes on pages 66 to 107 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Note	Share capital £000	Share premium £000	Merger reserve £000	Share based payment reserve issued £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2019		**1,592**	**12,535**	**13,232**	**1,010**	**(263)**	**28,106**
Loss for the year		-	-	-	-	(4,023)	(4,023)
Shares issued	25	70	600	834	-	-	1,504
Share based payment	9	-	-	-	75	-	75
Reserve transfer on exercise of share options		-	-	-	(431)	431	-
Balance as at 31 December 2019		**1,662**	**13,135**	**14,066**	**654**	**(3,855)**	**25,662**
Profit for the year		-	-	-	-	266	266
Shares issued	25	386	15,037	-	-	-	15,423
Share based payment	9	-	-	-	427	-	427
Reserve transfer on lapse of share options		-	-	-	(66)	66	-
Reserve transfer on exercise of share options		-	-	-	(86)	86	-
Balance as at 31 December 2020		**2,048**	**28,172**	**14,066**	**929**	**(3,437)**	**41,778**

The notes on pages 66 to 107 form part of these financial statements.

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 of the Group and Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

BASIS OF PREPARATION

The Group's accounting reference date is 31 December.

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis. Refer to the Going Concern note for further details.

The Group has taken advantage of the audit exemption for nine of its subsidiaries, Instem Life Science Systems Limited (company number 04339129), Instem Scientific Solutions Limited (company number 03598020), Instem Clinical Holdings Limited (company number 05840032), Instem Clinical Limited (company number 06959053), Instem LSS North America Limited (company number 02126697), Instem LSS Limited (company number 03548215), Instem Scientific Limited (company number 03861669), Perceptive Instruments Limited (company number 02498351), Samarind Limited (company number 02105894), by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these subsidiaries which have taken advantage of the exemption from audit.

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

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 2020. The Group and Company have chosen not to adopt any amendments or revised standards early.

IFRSs ADOPTED IN THE YEAR

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB which are all effective from 1 January 2020. The most significant of these are as follows:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Those standards, amendments to standards, and interpretations have been adopted and did not have a material impact on the accounting policies of the Group.

The practical expedient for COVID-19 Rent Related Concessions (Amendments to IFRS 16) have not been applied in the current reporting period.

IFRSs ISSUED BUT NOT YET EFFECTIVE

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is are as follows, which are all effective for the period beginning 1 January 2021:

- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the parent company, Instem plc, and its subsidiary undertakings made up to 31 December 2020 and 31 December 2019.

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 in which the Group has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group up until the date that control ceases.

All subsidiary companies within the Group have a financial year end date of 31 December, with the exception of Instem India Pvt Limited which has a financial year end date of 31 March, in line with Government of India regulations.

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'.

Consideration may consist of deferred consideration and contingent consideration. Deferred consideration is not based on any performance related conditions and is payable on an agreed future date. Contingent consideration is based on certain performance related conditions and payable on an agreed future date, if those conditions are met.

Deferred consideration and contingent consideration is measured at their acquisition-date fair value and are taken into account in the determination of goodwill. 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 statement of comprehensive income.

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.

Background

The Directors have adopted the going concern basis in preparing these financial statements after careful assessment of identified principal risks and the possible adverse impact on financial performance. The Directors have assessed the financial position and liquidity at the end of the reporting period and for the forecast period up to 31 December 2022, including sensitivity analysis. The going concern period covers the 12 months from the date of signing the financial statements. The process and key judgments in coming to this conclusion are set out below.

The Group’s activities, including the factors likely to affect its future development, performance and position are set out in the Chairman’s Statement and Strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

Current trading and liquidity

The Group’s trading performance for the year ended 31 December 2020 has been strong with Revenues of £28.2m and Adjusted EBITDA of £5.9m. Instem is fully operational, with all staff in all territories working from home in accordance with governmental guidelines, no staff have been furloughed and there is no intention of curtailing any business activities. The company has continued to recruit staff across its geographic footprint.

The Group's financing arrangements consist of a net overdraft facility of £0.5m and a gross limit of £9.0m with NatWest Bank plc to support the Group's working capital needs. As of 31 December 2020, the net facility was undrawn (2019: undrawn). There are no material covenants associated with the facility.

Following the announcement of the 2019 preliminary results Instem undertook an equity fund raise in July 2020. This was a success as it was oversubscribed, raising gross funds of £15.75m, £15.0m net of expenses. A further six prestigious institutions were added to the list of shareholders. We spent £4.0m initially funding the acquisition of The Edge on 1st March 2021 and $13m spent on the initial funding of the d-wise acquisition on 1st April 2021. The group remains in a strong financial position as both of these acquisitions are expected to be accretive and cash generative.

During 2020, the Group received US government support loan of $1.1m (£0.9m). The Group have applied for these sums to be forgiven and based on meeting all the qualifying criteria, expect to receive a favourable outcome.

The Group acquired the earnings enhancing, cash generative business of Leadscope Inc. in November 2019, which has been steadily integrated within the Group during 2020. The only financial obligation associated with this acquisition during 2021 is a deferred consideration payment of $0.3m due in November 2021.

Other than the initial consideration paid for The Edge and d-wise there are no further financial obligations payable associated with the acquisitions until 2022, when deferred and contingent consideration will be due.

Sensitivity Analysis

The Company has considered three scenarios which are also linked to the company’s risks when modelling the forecast results and cash flow. The sensitivity assessment includes the trading performance and cash flows of the Edge and d-wise from the date of the acquisitions.

(a) Base Case Scenario

The Group's detailed forecasts and projections, taking account of potential risks and uncertainties in the business, market and liquidity through sensitivity analysis, show that the Group has adequate resources to enable it to continue in operation through the forecast period ending 31 December 2022 from the approval date of these Consolidated Financial Statements. Accordingly, the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements.

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the sensitivity analysis and as part of Group's adoption of the going concern basis. Thus far we have not observed any material impact on our overall existing business or in the level of new business opportunities that are being presented to us in the markets in which we operate.

The Group has a significant proportion of recurring revenue (circa 60% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Revenue is supported by a largely fixed cost base comprising staff and offices. The Group had net current assets (excluding deferred income) of £29.7m as of 31 December 2020 (2019: £10.0m). The deferred income recurs each year on renewal of contracts and in general the Group has either received the related cash or has raised invoices for the services.

The Group had positive cash reserves of £26.7m at 31 December 2020, in addition to the £0.5m undrawn working capital facility, although £2.6m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly. There are however no long-term restrictions on the transfer of funds from the Group bank accounts in China and since the 2020 year end we have been able to repatriate £1.6m, significantly reducing our financial exposure to that territory.

(b) Sensitised Scenario

Further stress testing has been carried out to ensure that the Group has sufficient cash resources to continue its operations until at least 31 December 2022. In the downside scenario analysis performed, the Board considered the potential impact of the COVID-19 outbreak on the Group's results. In preparing this analysis the following key risks were included: COVID-19 causing a 25% loss of new business for the next twelve months and the risk effect of foreign exchange movements, particularly between the USD and GBP. Despite the negative impact of these sensitivities the model demonstrated that the Group remained viable, even though profitability and cash over the next twelve months was reduced.

(c) Extreme downside Scenario

The Group then considered a more extreme situation where the impact of its risks would be more severe such as a significant negative impact of COVID-19 continuing for an extended period of time into 2022, assuming there would be no new business at all. This sensitivity exercise resulted in the Group showing an operating loss in each of the years ending 31 December 2021 and 31 December 2022 and exhausting its cash reserves from October 2021, having not drawn its bank facility.

In a scenario where many of the identified risks occurred the Group would take remedial action to counter the dramatic reduction in profit and cash through a cost cutting and fund-raising exercise that would include staff redundancies, general cost control measures, office space reduction and seeking alternative sources of funding.

These downside scenarios are considered unlikely.

Even applying the extreme downside scenario sensitivity analysis throughout the forecast period to 31 December 2022, by taking sufficient remedial action we expect the Group to remain a going concern.

Conclusion and Going Concern Statement

After considering the uncertainties described above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing this annual report and accounts.

REVENUE RECOGNITION

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

Licence revenue comprises the sale of software licences across the Group and the sale of compound credits by Leadscope. The revenue from software licences is recognised when the customer takes possession of the software which is usually when the licence 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. The revenue from compound credits is recognised at the point in time when the actual credits have been exercised, as the promises in these contracts are a single performance obligation.

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 usage of software on a hosted server over a specified period of time 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 as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Group.

Subscription and support

Subscription contracts are entered into by our Leadscope business and the associated revenue is classified as Subscription and support fees. Customers typically enter into a Subscription contract for a period of twelve months and pay a fixed amount in exchange for the usage of software on a hosted server, computer based version or customer server version (in customer premises) over a specified period of time along with access to maintenance and support. Initial Subscription contracts may also include some installation services.

The promises in these contracts are considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Group.

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 given the services are interdependent 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. The Group has elected to take the practical expedient to apply this policy to its portfolio distinct service contracts given the similar characteristics in these types of contracts.

Bundled contracts

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

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, due to a lack of interdependence between performance obligations, 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.

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

Adjusted EBITDA is profit/(loss) arising from the Group's normal trading activities stated before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development costs and non-recurring items.

It is shown in this way to provide a clearer measure of underlying operating performance.

SEGMENTAL DISCLOSURES

During the prior year the business was divided into three operating segments to better manage and report revenues; Study Management, Regulatory Solutions and *In Silico* Solutions (see note 1).

In the final quarter of 2019 the board decided to allocate certain direct costs to the revenue streams whilst the majority of costs were still recorded and reported centrally. The treatment in 2019 was based on information that was provided to the Instem Board, the Group's Chief Operating Decision Maker, at the end of 2019.

During 2020 the business implemented a process to more accurately allocate centrally held operational costs to the individual segments. However, it will take time for the allocations to be sufficiently accurate for the Board to use segmental cost information for meaningful decision making. Until that time, cost allocations are not being provided to the Board as part of the monthly management information.

The operations of the Group are managed centrally with group-wide functions including sales and marketing, development, customer support, human resources and finance & administration.

FOREIGN CURRENCIES

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

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

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

The 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 2019	1.2739	9.9825	8.7841	89.3413	138.8451	1.1389
Closing rate at 31 December 2019	1.3159	10.2457	9.1621	93.8148	142.9249	1.1735
Average rate for year ended 31 December 2020	1.2852	9.9893	8.8974	95.4317	137.1411	1.1283
Closing rate at 31 December 2020	1.3659	10.5882	8.9346	100.1070	140.7079	1.1124

The consolidated financial statements are presented in Sterling (GBP), which is also the functional currency of the Parent Company. 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)
Leadscope Inc.	US Dollars (USD)

NON RECURRING ITEMS

Non recurring items are gains or losses which are infrequent or abnormal and are not part of the ongoing operations of the business. Non recurring items may include restructuring costs, legal fees, M&A costs and other unusual gains or losses.

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 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.

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 in the subsidiaries and added to the cost of investment within Instem plc.

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, Brand Names and Patents

The Group makes an assessment of the fair value of intangible assets arising on acquisitions. These include Intellectual Property, Customer Relationships, Brand Names 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, Brand Names 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.

Capitalised development costs are those which are directly attributable to the development activity and include employee costs, overheads and direct third party costs.

Where the 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). Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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 - 25% - 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.

LEASING

The Group as a lessee

The Group makes use of leasing arrangements principally for the provision of office space. The Group does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses.

The Group assesses whether a contract is a lease or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with facilities management services at offices. The Group has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component.

Measurement and recognition of leases as a lessee

All leases are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, discounted using the Group's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Group could have to pay to borrow the same amount over a similar term and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Group.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) and variable payments based on an index or rate.

In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate at the date of re-assessment or effective date of a lease modification is used. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. In both cases an equivalent adjustment is made to the carrying value of the right of use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right of use asset being adjusted by the same amount

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right of use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right of use asset is adjusted by the same amount.

In determining the lease term, the Group assesses whether it is reasonably certain to exercise, or not to exercise, options to extend or terminate a lease. This assessment is made at the start of the lease and is re-assessed if significant events or changes in circumstances occur that are within the lessee's control.

The Group has elected to account for short-term leases assets using practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Group applies judgement in determining whether individual leases can be accounted for as a portfolio. The judgements include an assessment of whether the leases share similar characteristics and whether the financial statements would be materially different if each lease was accounted for individually. The Group leases a number of properties in the jurisdictions from which it operates. In these jurisdictions the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes affect. The Group also leases certain vehicles. Leases of vehicles comprise only fixed payments over the lease terms.

The Group as a lessor

The Group acts as a lessor in relation to a sublease of part of one of the properties it leases. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

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 ('CGU') to which the asset belongs. A CGU 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.

IMPAIRMENT TESTING OF GOODWILL

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually.

An impairment loss is recognised for the amount by which CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. Both methods are applied to CGUs to determine the recoverable amount.

To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate (WACC) in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. The budgeted unallocated deparmental costs are assigned to each CGU's using an approach agreed by the board. However, the board will not use this format to obtain a important business decisions.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

To determine the fair value less cost to sell, management estimates the cash flows that will be received by selling the CGU at the end of the reporting period. They then assess the characteristics of that particular CGU from the perspective of the market particpants at the measurement date.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

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

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

Financial assets

The Group classifies its financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost, less provision for impairment.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Trade receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets, if not, they are presented as non-current assets.

Trade and other receivables are measured at the transaction price in accordance with IFRS 15.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December 2020 (2019: 31 December 2019) and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The contract assets relate to unbilled revenue, which have performance obligations to be completed. The contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit-impaired. If the credit risk is significant a provision is posted based on the recoverable amount the Group is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

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. Cash and cash equivalents in the statement of financial position include bank overdrafts. An offset position is reported as the Group has a legal right to set off and any settlement would be on a net basis. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and are an integral part of Group cash management.

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.

Intercompany receivables

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised. The amount of any provision is recognised in the income statement within other operating costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Interest-bearing government loans are recorded initially at their fair value, net of direct transaction costs. Such loans 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.

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.

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.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant judgements

The following judgments have the most significant effect on the financial statements.

Revenue Recognition

The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, subscription and support, professional services and technology enabled outsourced services. Software licences, professional services and annual support are often bundled together in a contract which do not meet the criteria to be distinct performance obligation, due to a lack of interdependence between performance obligations. Promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied.

Judgement is applied in determining how many performance obligations there are within each contract and the period in which these obligations will be fulfilled and recognised as revenue, based on the Group's accounting policies. For SaaS subscription and support, the Group determines for each contract whether the promise is considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

Impairment of goodwill

CGUs are identified by the fact they are separate legal entities and so have their own intangible and tangible assets, other current assets and generate cash from their products and services that are separately identifiable from one another. The judgements were made in respect of the WACC, the revenue growth rate applied and the allocation of costs across the CGUs.

The carrying value of goodwill must be assessed for impairment annually. This requires a value in use estimate which is dependent on estimation of future cashflows and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2020 was £10.2m (2019: £10.2m). Refer to note 11 for further detail.

Management approved to use the same pre-tax WACC across all CGUs, as it was determined based on the Groups risks and there were no specific risks related to each CGU or CGU's jurisdiction.

The revenue growth rates and margins are based on current Board-approved budgets and forecasts covering a period of five years. Management estimates are considering business growth rates, payroll and other cost base increases further details are provided in note 11.

The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. The budgeted unallocated departmental costs are assigned to each CGU applying a standard methodology approved by the Board.

Development Costs

The Group invests on a continual basis in the development of software for sale to third parties. There is a continual process of enhancements to and expansion of the software with judgement required in assessing whether the development costs meet the criteria for capitalisation. These judgements have been applied consistently year on year. In making this judgement, the Group evaluates, amongst other factors, whether there are future economic benefits beyond the current period, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Judgement is therefore required in determining the practice for capitalising development costs.

Estimation uncertainty

Information about estimations and assumptions that may have the most significant affect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Provision for liabilities

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 2020, the Group has a provision of £0.25m (2019: £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 input received by the Group.

Contingent consideration

Where acquisition consideration includes consideration contingent on performance outcomes being met, the consideration is valued at the acquisition date based on performance forecasts available at the time. Those forecasts are reviewed at the reporting date and the consideration revised where materially different.

Impairment of other intangible assets

Other intangibles assets consist of assets acquired (customer relationships, intellectual property and brand names) as part of the net assets of certain subsidiaries and software, being mainly capitalised development costs. Impairment testing requires if there is an indication that the other intangible asset is impaired and the value in use method would be estimated based on an estimation of future cashflows and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying amounts of acquired intangibles and software at the reporting date was £3.6m and £4.3m respectively (2019: £4.2m and £3.7m). There was an impairment charge of £0.7m on the year ended 31 December 2019. Refer to note 11 for further detail.

Pension scheme

As stated above the Group operates a defined benefit pension scheme. At the end of each six monthly reporting period the Group seeks external expert actuarial advice on the assumptions to apply to the calculation of the scheme's liabilities. The Group then engages a separate, independent firm of pension advisors to calculate the scheme surplus or deficit at the reporting date for accounting purposes. The scheme deficit at 31 December 2020 is £3.9m (2019: £1.8m).

Revenue Recognition

For Professional services and technology enabled outsourced services revenue recognition there is a significant estimation of the planned project hours, which determines the percentage of completion of service revenue contracts. Before the project is started, the project manager estimates the budgeted hours needed for the agreed services. If the project is expected to overrun then the project manager will amend the expected budgeted hours in accordance with the new available information which also mitigates the risk of early revenue recognition.

1. REVENUE FROM CONTRACTS WITH CUSTOMERS

a. Segmental Reporting

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.

Prior to 2019, the Group reported its business as one operating segment; Global Life Sciences. The Board managed the Group by monitoring its revenue streams and considered the cost base as a whole. Historically the Group's finance systems have recorded costs centrally and have managed costs in this way. Without systems capable of allocating costs accurately, the Board concluded that there was only one operating segment in which revenues and costs were reported. Over recent years the Group has expanded both organically and through acquisition, increasing the number of products and services. During 2019 the business was divided into three operating segments to better manage and report revenues; Study Management, Regulatory Solutions and *In Silico* Solutions.

There has been an ongoing project to enhance the quality of management information (MI) following the implementation of a new finance system. During the final quarter of 2019 certain direct costs were allocated to the revenue streams whilst the majority of costs were still recorded and reported centrally. The treatment in 2019 was based on information that was provided to the Instem Board, the Group's Chief Operating Decision Maker, at the end of 2019.

During 2020 the business implemented a process to more accurately allocate centrally held operational costs to the individual segments. However, it will take time for the allocations to be sufficiently accurate for the Board to use segmental cost information for meaningful decision making.

The operations of the Group are managed centrally with group-wide functions including sales and marketing, development, customer support, human resources and finance & administration.

The analysis provided below reflects costs directly attributable to the respective segments in 2020 and 2019, which are primarily third party costs of sale and costs of allocated employees. The remaining indirect operational costs are accounted for centrally and are not allocated to specific segments.

1. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

SEGMENTAL REPORTING **2020**	**Study Management £000**	**Regulatory Solutions £000**	**In Silico Solutions £000**	**Total £000**
Total revenue	**15,054**	**9,839**	**3,324**	**28,217**
Direct attributable costs	**(3,516)**	**(2,046)**	**(1,630)**	**(7,192)**
Contribution to indirect overheads	**11,538**	**7,793**	**1,694**	**21,025**
Central unallocated indirect costs				**(15,106)**
Adjusted EBITDA				**5,919**
Depreciation				**(138)**
Amortisation of intangibles arising on acquisition				**(664)**
Amortisation of internally generated intangibles				**(736)**
Depreciation of right of use assets				**(572)**
Impairment of goodwill and capitalised development costs				**-**
OPERATING PROFIT BEFORE NON-RECURRING COSTS				**3,809**
Non-recurring costs				**(606)**
OPERATING PROFIT AFTER NON-RECURRING COSTS				**3,203**
Finance income				**38**
Finance costs				**(692)**
PROFIT BEFORE TAXATION				**2,549**

SEGMENTAL REPORTING **2019**	**Study Management £000**	**Regulatory Solutions £000**	**In Silico Solutions £000**	**Total £000**
Total revenue	15,188	9,037	1,492	25,717
Direct attributable costs	(4,370)	(2,111)	(660)	(7,141)
Contribution to indirect overheads	10,818	6,926	832	18,576
Central unallocated indirect costs				(13,712)
Adjusted EBITDA				4,864
Depreciation				(155)
Amortisation of intangibles arising on acquisition				(523)
Amortisation of internally generated intangibles				(755)
Depreciation of right of use assets				(607)
Impairment of goodwill and capitalised development costs				(3,175)
OPERATING LOSS BEFORE NON-RECURRING COSTS				(351)
Non-recurring costs				(302)
OPERATING LOSS AFTER NON-RECURRING COSTS				(653)
Finance income				7
Finance costs				(255)
LOSS BEFORE TAXATION				(901)

1. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

REVENUE BY PRODUCT TYPE	**2020 £000**	2019 £000
Licence fees	**3,477**	3,501
Annual support fees	**8,917**	8,418
SaaS subscription and support fees	**8,024**	6,444
Professional services	**1,603**	1,773
Technology enabled outsourced services	**6,196**	5,581
	28,217	25,717

REVENUE BY GEOGRAPHICAL LOCATION	**2020 £000**	2019 £000
UK	**2,740**	3,414
Rest of Europe	**5,656**	5,051
North America	**14,586**	12,701
Rest of World	**5,235**	4,551
	28,217	25,717

NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION BY GEOGRAPHICAL LOCATION	**2020 £000**	2019 £000
UK	**17,549**	17,779
Rest of Europe	**1,436**	1,107
North America	**524**	432
Rest of World	**622**	881
	20,131	20,199

There were no customers which represented more than 10% of the Group's revenue in 2020 (2019: none).

1. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

b. Contract Balances

	2020		2019	
£000	**Amounts recoverable on contracts**	**Deferred income**	Amounts recoverable on contracts	Deferred income
At 1 January	**1,395**	**(8,942)**	2,807	(8,625)
Transfer in the period from amounts recoverable on contracts to trade receivables	**(1,395)**	-	(2,807)	-
Amounts included in deferred income that was recognised as revenue during the period	-	**8,942**	-	8,625
Deferred income on acquisition of Leadscope Inc.	-	-		(818)
Cash received in advance of performance and not recognised as revenue during the period	-	**(9,878)**	-	(8,124)
Excess of revenue recognised over cash being recognised during the period	**1,826**	-	1,365	-
At 31 December	**1,826**	**(9,878)**	1,365	(8,942)

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 plus 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:

	2021 £000	2022 £000	2023 £000
Revenue	**50**	**9**	-

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.

As of 31 December 2020, the carrying value of costs to obtain contracts which have been capitalised is the amount of £nil (2019: £nil). Amortisation of £nil (2019: £0.1m) 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. OPERATING PROFIT BEFORE NON-RECURRING COSTS

	2020 £000	2019 £000
Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment - owned assets	**138**	155
Amortisation of intangible assets	**736**	1,278
Depreciation of right to use assets	**572**	607
Research and development costs	**2,177**	1,711
Impairment of goodwill	-	2,482
Impairment of capitalised development	-	693
Short life lease expenses	**95**	21
Amounts payable to Grant Thornton UK LLP and their associates in respect of both audit and non-audit services:		
Fees payable to the Group's auditors:		
for the audit of the Parent Company and consolidated financial statements	**177**	93
for the audit of the Company's subsidiaries	-	15
Non-audit services:		
Taxation services - Compliance	**21**	27
Taxation services - Advisory	**53**	69
Corporate finance services	-	30
	251	234

The following tables analyse employee benefits operating expense and other expenses:

	2020 £000	2019 £000
Employee benefits expense		
Staff costs (see note 6)	**15,447**	13,534
Share based payments	**427**	75
Health and life insurance	**630**	-
Other benefits	**4**	-
	16,508	13,609
Other expenses		
Operating lease rentals	-	28
Software maintenance charges	**918**	731
Licence costs	**1,543**	1,457
Third party costs	**1,567**	2,812
Other expenses	**1,762**	2,216
	5,790	7,244

3. NON-RECURRING COSTS

	2020 £000	2019 £000
Guaranteed Minimum Pension (GMP) equalisation provision	**5**	-
Legal costs relating to historical contract disputes	**149**	106
Acquisition costs	**452**	196
	606	302

4. FINANCE INCOME

	2020 £000	2019 £000
Right of use asset interest income	**7**	-
Other interest	**31**	7
	38	7

5. FINANCE COSTS

	2020 £000	2019 £000
Loans and overdrafts	**38**	34
Unwinding discount on deferred consideration	**70**	-
Net interest charge on pension scheme	**34**	60
Lease interest cost	-	2
Right of use asset interest cost	**96**	118
Foreign exchange losses	**454**	41
	692	255

6. EMPLOYEES

Group	**2020 Number**	2019 Number
Average monthly number (including non-executive directors)		
By role:		
Directors, administration and supervision	**39**	39
Software design, sales and customer service	**265**	229
	304	268
Employment costs:		
Wages and salaries	**13,109**	11,444
Social security costs	**1,334**	1,148
Other pension costs	**1,004**	942
	15,447	13,534

Company	**2020 Number**	2019 Number
Average monthly number (including non-executive directors)		
By role:		
Non-executive directors	**3**	3
Employment costs:		
Wages and salaries	**138**	120
Social security costs	**15**	13
	153	133

7. DIRECTORS' EMOLUMENTS

	2020 £000	2019 £000
Amounts payable by Instem plc:		
Emoluments	**138**	120
Amounts payable by subsidiary companies:		
Emoluments	**385**	359
Defined contribution pension contributions	**44**	43
Total emoluments	**567**	522

	2020 Number	2019 Number
Number of directors to whom retirement benefits are accruing under:		
Defined contribution schemes	**2**	2

The remuneration of the highest paid director during the year ended 31 December 2020 was 276,000 (2019: £261,000). Directors' remuneration analysed by director is shown on page 29.

8. LEASES

Lease liabilities are presented in the statement of financial position as follows:

	2020 £000	2019 £000
Current	**488**	565
Non current	**1,596**	2,004
	2,084	2,569

Nature of leasing activities in the capacity of lessee

The Group leases a number of offices in the jurisdictions from which it operates. In these jurisdictions the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes effect. The Group also leases certain vehicles. Leases of vehicles comprise only fixed payments over the lease terms. With the exception of short term leases, leases of low value underlying assets and a lease held for a telephone system, with less than twelve months remaining on the lease as at 31 December 2020, each lease is reflected on the balance sheet as a right of use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right of use asset can only be used by the Group. Leases are either non cancellable or may only be cancelled by incurring a termination fee. Some leases contain an option to extend the lease for a further term. For office leases the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

8. LEASES (CONTINUED)

The table below describes the nature of the Groups leasing activities by type of right of use asset recognised on the balance sheet:

Right of use assets	No of right of use assets leased	Range of remaining term	No of leases with extension options	No of leases with options to purchase	No of leases with payments linked to an index	No of leases with termination options
Office buildings	10	2.7 years	10	0	1	0
Vehicles	3	2.9 years	0	0	0	0

Right of use assets	Land & buildings £000	Motor vehicles £000	Total £000
As at 1 January 2019	**2,978**	**24**	**3,002**
Derecognition of sublease	(249)	-	(249)
Amortisation	(590)	(17)	(607)
Exchange adjustment	19	-	19
As at 31 December 2019	**2,158**	**7**	**2,165**
Additions	123	31	154
Lease modification and remeasurement	32	-	32
Amortisation	(564)	(8)	(572)
Exchange adjustment	(38)	-	(38)
As at 31 December 2020	**1,711**	**30**	**1,741**

Lease liabilities	Land & buildings £000	Motor vehicles £000	Total £000
As at 1 January 2019	**3,020**	**22**	**3,042**
Interest expense	117	1	118
Lease payments	(676)	(17)	(693)
Exchange adjustment	102	-	102
As at 31 December 2019	**2,563**	**6**	**2,569**
Additions	123	31	154
Lease modification and remeasurement	32	-	32
Interest expense	95	-	95
Lease payments	(710)	(6)	(716)
Exchange adjustment	(50)	-	(50)
As at 31 December 2020	**2,053**	**31**	**2,084**

8. LEASES (CONTINUED)

Reconciliation of movements of liabilities to cash flows arising from financing activities

Changes from financing cash flows	Land & buildings £000	Motor vehicles £000	Total £000
At 31 December 2019	**676**	**17**	**693**
Interest expenses	95	0	95
Payment of lease liabilities	615	6	621
As at 31 December 2020	**710**	**6**	**716**

Lease liability maturity analysis:

As at 31 December 2019	**1 year or less £000**	**2 to 5 years £000**	**After five years £000**	**Total £000**
Lease liabilities	565	1,950	54	2,569

As at 31 December 2020	**1 year or less £000**	**2 to 5 years £000**	**After five years £000**	**Total £000**
Lease liabilities	488	1,538	58	2,084

The following amounts in respect of leases, where the company is a lessee, have been recognised in consolidated statement of comprehensive income:

	2020 £000	2019 £000
Expenses relating to short-term leases	**45**	21
Low value lease expense	**95**	7
Interest expense	**95**	118
Amortisation of right of use assets	**572**	607

The total cash outflow for leases in 2020 was £0.7m (2019: £0.7m).

8. LEASES (CONTINUED)

Finance lease receivable

Nature of leasing activities in the capacity of lessor

The Group also acts as a lessor in relation to a sublease of part of one of the properties rented. As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

Movement in net investment in leases in relation to sub leases during the year ended 31 December 2020 and 31 December 2019 are as follows:

	£000
As at 1 January 2019	-
Addition	221
Interest earned	1
Less: Rental income received	(8)
At 31 December 2019	214
Addition	-
Interest earned	8
Less: Rental income received	(48)
Exchange adjustment	(5)
At 31 December 2020	169

Minimum undiscounted lease payments receivable are as follows:

	2020 £000	2019 £000
Within 1 year	**47**	47
Between 1 and 2 years	**48**	48
Between 2 and 3 years	**50**	50
Between 3 and 4 years	**33**	51
Later than 5 years	**-**	40
	178	236

Reconciliation of minimum undiscounted lease payments to net investment in the lease:

	2020 £000	2020 £000
Total minimum undiscounted lease payments receivable	**178**	236
Unearned finance income	**(9)**	(22)
Net investment in the lease	**169**	214

8. LEASES (CONTINUED)

Finance lease receivable maturity analysis:

As at 31 December 2019	1 year or less £000	2 to 5 years £000	After five years £000	Total £000
Finance lease receivable	39	175	-	214

As at 31 December 2020	1 year or less £000	2 to 5 years £000	After five years £000	Total £000
Finance lease receivable	41	128	-	169

9. SHARE BASED PAYMENT

Equity-Settled Share Option Plan

The Remuneration Committee can grant options to employees of the Group. Options are granted with a fixed exercise price at the date of grant and the contractual life is generally ten years from the grant date. Options generally vest and become exercisable after three years where certain performance criteria have been met. Share options issued to directors and senior employees generally carry profitability (EBITDA) or market-based performance conditions. The Group awarded share options to all employees during 2020 which are only subject to continued employment and have no other performance conditions.

	2020		2019	
	Number	**Weighted average exercise price (£)**	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	**983,303**	**0.60**	1,465,548	0.85
Granted	**535,728**	**0.00**	7,740	0.10
Lapsed	**(21,788)**	**0.09**	(16,804)	0.10
Exercised	**(238,141)**	**1.75**	(473,181)	1.37
Outstanding at end of the year	**1,259,102**	**0.11**	983,303	0.60
Exercisable at end of year	**525,518**	**0.25**	678,659	0.83

The options outstanding at 31 December 2020 had exercise prices of £nil, £0.10, £0.90, £1.76 and £2.22 (2019: £nil, £0.10, £0.90, £1.75, £1.76 and £2.22) and a weighted average remaining contractual life of 7 years 3 months (2019: 5 years 3 months).

A charge of £0.427m (2019: £0.075m) arose in respect of share based payments.

The fair value of options granted in the year was £1.9m (2019: £0.02m).

During the year, the average share price in respect of share options exercised was £1.75 (2019: £3.17)

9. SHARE BASED PAYMENT (CONTINUED)

New options for 535,728 shares were granted in the year which are valued using the Monte-Carlo option-pricing model. The fair market value has been estimated using the following key assumptions:

Grant date	27 April & 26 June	6 May	19 May	26 June
Expected life (years)	3	3	3	3
Share price at grant date	£4.45	£4.50	£4.50	£4.45
Exercise price	Nil	Nil	Nil	Nil
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk free rate	N/A	N/A	0.02%	0.02%
Volatility	N/A	N/A	38.6%	38.6%
Fair value of options (average)	£4.45	£4.50	£3.34	£3.31

The share options awarded in the year comprised of LTIP awards with performance targets, Bonus nil cost options with no performance targets and conditional awards with no performance targets. The LTIP awards vest when certain share price conditions are met. The other options are only subject to continued employment and have no other performance targets.

The fair value calculation includes an assumption regarding share price volatility of 38.6% for LTIP awards only. The historical volatility of the Group's share price was calculated using daily data over a 3 year period, which is commensurate with the remaining performance period.

10. TAXATION

Income taxes recognised in profit or loss:	**2020 £000**	2019 £000
Current tax:		
UK corporation tax in respect of previous years	**(4)**	28
Adjustments in respect of R&D tax credit	**250**	464
Foreign tax	**(146)**	(404)
Foreign tax in respect of previous years	**39**	67
Total current tax credit	**139**	155
Deferred tax:		
Current year charge	**(165)**	(96)
Adjustment in respect of previous years	**(57)**	(11)
Retirement benefit obligation	**(90)**	(70)
Impact of rate change	**(102)**	-
Total deferred tax charge	**(414)**	(177)
Total income tax charge recognised in the current year	**(275)**	(22)

The UK cororation tax is calculated at the prevailing rate of 19%. Foreign tax liabilities are calculated at the prevailing tax rates applying in the overseas tax jurisdictions.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would not have a material impact.

10. TAXATION (CONTINUED)

The income tax (expense)/credit can be reconciled to the accounting profit as follows:	**2020 £000**	2019 £000
Profit/(Loss) before tax	**2,549**	(901)
Profit/(Loss) before tax multiplied by standard rate of corporation tax in the UK 19.0% (2019: 19.0%)	**(484)**	171
Effects of:		
Expenses not allowable for tax purposes	**(59)**	34
Enhanced R&D tax relief	**321**	454
Losses surrendered for R&D tax credit	**(327)**	(599)
R&D tax credit accrual	**390**	572
Tax losses not previously recognised	**105**	-
Impairment of goodwill and capitalised development	-	(604)
Tax losses utilised	-	18
Adjustments in respect of prior years	**(22)**	(68)
Impact of change in tax rate	**(102)**	-
Double tax relief	**(20)**	110
Other differences	-	18
Difference in overseas tax rates	**(77)**	(128)
Total income tax charge recognised in consolidated statement of comprehensive income	**(275)**	(22)

11. INTANGIBLE ASSETS

Group	Goodwill £000	Software £000	Intellectual property £000	Customer relationships £000	Brand Names £000	Patents £000	Total £000
Cost							
At 1 January 2019	10,590	6,840	4,527	2,874	-	21	24,852
Additions	-	1,344	-	-	-	-	1,344
Disposals	-	(60)	-	-	-	-	(60)
Acquisition	2,068	18	1,185	264	380	-	3,915
Exchange adjustment	-	(35)	-	-	-	-	(35)
At 31 December 2019	12,658	8,107	5,712	3,138	380	21	30,016
Additions	-	1,272	-	-	-	-	1,272
Exchange adjustment	-	34	-	-	-	-	34
At 31 December 2020	**12,658**	**9,413**	**5,712**	**3,138**	**380**	**21**	**31,322**
Amounts written off							
At 1 January 2019	-	2,953	3,040	1,427	-	21	7,441
Amortisation expense	-	755	332	191	-	-	1,278
Impairment charge	2,482	693	-	-	-	-	3,175
Acquisition	-	18	-	-	-	-	18
Exchange adjustment	-	(4)	-	-	-	-	(4)
At 31 December 2019	2,482	4,415	3,372	1,618	-	21	11,908
Amortisation expense	-	736	423	212	29	-	1,400
Exchange adjustment	-	(9)	-	-	-	-	(9)
At 31 December 2020	**2,482**	**5,142**	**3,795**	**1,830**	**29**	**21**	**13,299**
Net book value							
At 31 December 2019	10,176	3,692	2,340	1,520	380	-	18,108
At 31 December 2020	**10,176**	**4,271**	**1,917**	**1,308**	**351**	**-**	**18,023**

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £8.6m (2019: £7.4m) with accumulated amortisation of £3.7m (2019: £3.0m). Software additions for the year include £1.2m relating to internal development (2019: £1.3m).

Gross carrying amount of goodwill

The allocation of goodwill to Cash Generated Untis (CGUs) is as follows:

	2020 £000	2019 £000	Acquisition date
Instem LSS Limited	**5,900**	5,900	27 March 2002
Instem Scientific Limited	**500**	500	3 March 2011
Perceptive Instruments Limited	**600**	600	21 November 2013
Samarind Limited	**600**	600	27 May 2016
Notocord SA	**500**	500	2 September 2016
Leadscope Inc	**2,100**	2,100	15 November 2019
Clinical Holdings Limited	-	-	
	10,200	10,200	

The Goodwill related, to a CGU, being the Instem Clinical Holdings Limited was fully impaired in 2019.

Impairment testing

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Key assumptions

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates, margins and cashflows.

Discount rates

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and any risks specific to the CGUs. The rates used to discount the future cashflows are based on the Group's pre-tax weighted average cost of capital (WACC) of 9.35% (2019: 10.0%). Management approved the use of the same pre-tax WACC across all CGUs, as it was determined based on the Groups risks and there were no specific risks related to each CGUs and CGU's jurisdiction. Additionally, further sensitivity analysis was performed on pre-tax WACC which didn't lead into any concern.

Growth rates and terminal values

The revenue growth rates and margins are based on current Board-approved budgets and forecasts covering a period of five years. The Group produces a budget for 2021 and then forecast up to 2025 based on growth rates of 7% for LSS, Instem Scientific and Perceptive Instruments businesses. Then, 5% for Notocord SA and 2.5% for Samarind and Clinical Holdings Limited businesses (2019: 2.5% growth rate was applied to all CGUs).

For the perpetuity calculation (2025 and onwards) the 2.5%, business growth rate was applied to all CGUs which management estimates as reasonable considering business growth rates, payroll and other cost base increases (2019: 2.5% perpetuity growth rate was applied to all CGUs).

A terminal value is 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.

Sensitivity analysis

Management has carried out sensitivity analyses on the key assumptions used in recoverable amount calculations. Instem Clinical and Samarind CGUs were identified as being sensitive to impairment under the value-in-use model. However, using the FV less cost to sell model for the two CGUs it was evidenced that they were not impaired. Notocord CGU was also highlighted as sensitive to increases in discount rate and fall in growth rates.

11. INTANGIBLE ASSETS (CONTINUED)

The carrying amount includes goodwill, other intangible assets and tangible assets. The headroom of recoverable amount over carrying amount and sensitivities for 2020 are detailed below:

	Recoverable amount exceeds the carrying amount	Discount rate	Revenue
Instem LSS Limited	923%	67%	25%
Instem Scientific Limited	1,665%	149%	39%
Perceptive Instruments Limited	605%	38%	31%
Samarind Limited	-	-	-
Notocord SA	139%	3%	5%
Leadscope Inc	217%	9%	15%
Clinical Holdings Limited	-	-	-

The recoverable amount of the Instem Clinical CGU and Samarind CGU using the value-in-use calculation did not exceed the carrying amount of this CGU. However, using the FV less cost to sell method to calculate the recoverable amount shows that the recoverable amount is more than the carrying amount for both CGU. As the recoverable amount is the higher between value in use and FV less cost to sell method then no impairment charge to be required for both CGUs.

Review of carrying value of goodwill

As of 31 December 2020, the recoverable amount for each of the CGU has been measured using a value-in-use calculation and no impairment was required with the exception of the Instem Clinical CGU and Samarind CGU. However, using the FV less cost to sell method to calculate the recoverable amount shows that the recoverable amount is more than the carrying amount for both CGUs. As the recoverable amount is the higher between value in use and FV less cost to sell method then no impairment charge is required for either CGU.

As of 31 December 2019, a goodwill impairment of £2.5m was recognised relating to the Instem Clinical CGU. Alphadas is in the early phase clinical data collection business. This market sector has been going through considerable structural change and little new business has been placed in this sector over the last 18 months. We envisage further slippage in the pipeline of new opportunities, with no certainty regarding the timing of new business awards. Net realisable value calculations, based on sales and profitability, were used by the Group that resulted in a goodwill impairment of £2.5m in 2019. No further impairment has been deemed necessary in 2020.

The value in use calculations are reliant on the accuracy of management's forecast and the assumptions that underly them as well as the discount rate and growth rates applied.

Other intangible assets

As of 31 December 2020, there were no indications that any other intangible assets may be impaired.

As of 31 December 2019, an impairment loss of £0.7m was recognised for internally developed software in the Alphadas early phase clinical data collection business. The recoverable amount of the asset has been determined using net realisable value calculations, based on forecast sales and profitability.

12. INVESTMENTS IN SUBSIDIARIES

Cost	£000
At 1 January 2019	28,927
Additions	75
At 31 December 2019	29,002
Additions	420
At 31 December 2020	**29,422**

Provisions	£000
At 1 January 2019	-
Additions	2,810
At 31 December 2019	2,810
Additions	(8)
At 31 December 2020	**2,802**

Carrying value	£000
At 31 December 2019	26,192
At 31 December 2020	**26,620**

The Company tests annually for impairment against investments held.

An impairment provision of £2.8m has been made in 2019 against the carrying value of the investment in the Alphadas early phase clinical data collection business.

At 31 December 2020 the Group had six wholly-owned subsidiaries and twelve wholly-owned sub-subsidiaries, details of which are as follows:

Company	Registered Address	Activity	Ownership
Instem Life Science Systems Limited (company number 04339129) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Holding Company	100% by Instem plc
Instem LSS Limited (company number 03548215) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Software development, sales, sales support and administrative support	100% by Instem Life Science Systems Limited
Instem LSS (North America) Limited (company number 02126697) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Sales, sales support and administrative support	100% by Instem LSS Limited
Instem LSS (Asia) Limited (company number 1371107) Hong Kong	Suite 1106-8 11/F Tai Yau Building No 181 Johnston Road Wanchai	Holding Company	100% by Instem LSS Limited
Instem Information Systems (Shanghai) Limited (company number 310115400257075) Shanghai, PRC	Room 218, Building 3 No. 690 Bibo Road Zhanjiang High Tech Park Pudong District Shanghai 201203	Sales, sales support and service	100% by Instem LSS (Asia) Limited

Company	Registered Address	Activity	Ownership
Instem Scientific Limited (company number 03861669) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem plc
Instem Scientific Solutions Limited (company number 03598020) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Dormant	100% by Instem Scientific Limited
Instem Scientific Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem Scientific Limited
Instem India Pvt Limited (company number U73100MH2012FTC231951) India	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
Instem Clinical Limited (company number 06959053) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Instem Clinical Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Perceptive Instruments Limited (company number 02498351) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Development, manufacture and supply of software and hardware products for *in vitro* study data collection and study management in the genetic toxicology, microbiology and immunology markets	100% by Instem plc
Instem Japan K.K (company number 0104-01-120355) Japan	Shinagawa Intercity Tower, A Level 28 2-15-1 Konan, Minato-ku Tokyo 108-6028	Sales, sales support and service	100% by Instem LSS Limited
Samarind Limited (company number 02105894) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Provider of regulatory information management software	100% by Instem plc
Notocord Systems S.A. (company number 350927349) France	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.
Leadscope Inc. USA	1393 Dublin Road Columbus Ohio 43215	Leading provider of *in-silico* safety assessment software	100% Instem Scientific Inc

13. PROPERTY, PLANT AND EQUIPMENT

Group	Short leasehold property £000	IT hardware & software £000	Total £000
Cost			
At 1 January 2019	**94**	**1,544**	**1,638**
Additions	14	77	91
Disposals	(34)	(1)	(35)
Acquisition	-	79	79
Exchange adjustment	(2)	(17)	(19)
At 31 December 2019	**72**	**1,682**	**1,754**
Additions	13	128	141
Disposals	(4)	(32)	(36)
Exchange adjustment	1	(14)	(13)
At 31 December 2020	**82**	**1,764**	**1,846**
Depreciation			
At 1 January 2019	**66**	**1,272**	**1,338**
Depreciation expense	7	148	155
Disposals	(33)	(1)	(34)
Acquisition	-	75	75
Exchange adjustment	(1)	(16)	(17)
At 31 December 2019	**39**	**1,478**	**1,517**
Depreciation expense	12	126	138
Disposals	(2)	(32)	(34)
Exchange adjustment	-	(13)	(13)
At 31 December 2020	**49**	**1,559**	**1,608**
Net book value			
At 31 December 2019	33	204	237
At 31 December 2020	**33**	**205**	**238**

14. INVENTORIES

Group	**2020 £000**	2019 £000
Work in progress	**50**	36
	50	36

	2020 £000	2019 £000
Total gross inventories	**50**	36

The inventory consists of high-quality industrial-standard cameras and associated hardware for the Instem Sorcerer Colony Counter product.

In 2020, a total of £0.02m (2019: £0.02m) of inventory was included in profit or loss as an expense.

15. TRADE AND OTHER RECEIVABLES

Group	**2020 £000**	2019 £000
Trade receivables	**3,441**	4,376
Amounts recoverable on contracts	**1,825**	1,365
Prepayments and accrued income	**827**	1,180
	6,093	6,921
Company		
Amounts owed by group companies	**3,259**	4,861
Other receivables	**71**	140
	3,330	5,001

An allowance has been made for estimated credit losses from trade receivable and amounts recoverable on contracts as per below:

An analysis of the provision for impairment of receivables is as follows:	**2020 £000**	2019 £000
Group		
At beginning of year	**215**	54
Increase in provision for impairment	**87**	161
Reversal of provision for impairment	**(161)**	-
Foreign exchange adjustment	**3**	-
At end of year	**144**	215

15. 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 over a 5 year period prior to 31 December 2020 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 and 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.

The calculated simplified expected credit loss of trade receivables is deemed immaterial in the current year (2019: immaterial). The directors therefore do not deem it necessary to increase the impairment provision which is in relation to specific credit-impaired receivables.

The average credit period taken on sale is 51 days (2019: 61 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.

Impairment of amounts owed by group companies

The Company 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 the Company has reversed a provision of £0.6m for credit impairment of amounts owed by group companies (2019: has made a provision of £0.8m). The amount of the provision was £0.2m as of 31 December 2020 (2019: £0.8m).

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

	Debt age				
Group **2020**	**Current**	**0-30 days**	**31-60 days**	**Over 60 days**	**Total**
Trade receivables/Amounts recoverable on contracts					
Value (£000)	**4,132**	**556**	**251**	**327**	**5,266**
%	**78**	**11**	**5**	**6**	**100**

	Debt age				
Group 2019	Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts					
Value (£000)	3,654	1,063	451	573	5,741
%	64	18	8	10	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. CASH AND CASH EQUIVALENTS

Group	2020 £000	2019 £000
Cash at bank	**35,722**	14,955
Bank overdraft	**(8,998)**	(8,998)
	26,724	5,957
Company		
Cash at bank	**20,269**	1,128

Cash and cash equivalents at 31 December 2020 includes the gross proceeds of £15.75m (£15.0m net of expenses) raised through a placing of 3,620,690 new shares at a price of 435p per share, announced by the Group on 26 June 2020.

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 3.0% above base rate. The bank overdraft is secured by fixed and floating charges over certain of the Group's assets and is repayable on demand.

Cash and cash equivalents in the statement of financial position includes a bank overdraft of £9.0m (2019: £9.0m) as noted above. An offset position is reported as the Group has a legal right to offset any settlement would be on a net basis.

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	2020 £000	2019 £000
Sterling	**9,312**	355
Euro	**1,044**	737
US Dollar	**12,326**	1,535
Renminbi	**2,562**	1,924
Other	**1,480**	1,406
	26,724	5,957
Company		
Sterling	**11,197**	1,128
US Dollar	**9,072**	-
	20,269	1,128

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

17. TRADE AND OTHER PAYABLES

	2020 £000	2019 £000
Group - Current		
Trade payables	**466**	912
Other taxation and social security costs	**533**	183
Accruals	**1,959**	1,567
	2,958	2,662
Company - Current		
Trade payables	**67**	275
Amounts owed to group companies	**7,979**	6,051
Accruals	**422**	333
	8,468	6,659

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

18. DEFERRED INCOME

	2020 £000	2019 £000
Consideration received from customers in advance of work being completed plus maintenance and support which is invoiced in advance	**9,878**	8,942

19. FINANCIAL LIABILITIES

An analysis of financial liabilities as presented in the statement of financial position is as follows:

	2020 £000	2019 £000
Lease liability	-	18
Deferred consideration	**268**	283
Current liability	**268**	301

	2020 £000	2019 £000
Non current borrowings	**815**	-
Deferred consideration	-	275
Contingent consideration	**316**	284
Non current liability	**1,131**	559

The deferred consideration and contingent consideration above is in respect of the acquisition of Leadscope Inc, which was purchased on 15 November 2019.

The financial liability maturity analysis is disclosed in the table below.

2020	**1 year or less £000**	**1 to 2 years £000**	**2 to 5 years £000**	**Total £000**
Non current borrowings	-	**815**	-	**815**
Deferred consideration	**268**	-	-	**268**
Contingent consideration	-	**316**	-	**316**
	268	**1,131**	-	**1,399**

2019	1 year or less £000	1 to 2 years £000	2 to 5 years £000	Total £000
Lease liability	18	-	-	18
Deferred consideration	283	275	-	558
Contingent consideration	-	-	284	284
	301	275	284	860

20. FINANCIAL INSTRUMENTS

FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable input).

2020 Group and Company	**Carrying amount £000**	**Fair value £000**	**Level 3 £000**
Contingent consideration	**316**	**316**	**316**

2019 Group and Company	Carrying amount £000	Fair value £000	Level 3 £000
Contingent consideration	284	284	284

Measurement of fair value of financial instruments

The following valuation technique is used is used for instruments categorised as Level 3:

Contingent consideration (Level 3) – the fair value of contingent consideration related to the acquisition of Leadscope Inc in November 2019 was estimated using a present value technique. The £284,000 fair value was estimated in 2019 by probability weighting the estimated future cash outflows, adjusting for risk and discounting at 13.4%. The probability weighted cash outflows before discounting are £388,000 and reflect management's estimate of a 100% probability that the Leadscope's target level of profitability will be achieved.

The reconciliation of the carrying amounts of financial instruments classified as Level 3 is as follows:

	2020 £000	2019 £000
Balance as at 1 January	**284**	-
Arising on business combination	-	284
Payment of contingent consideration	-	-
Unwinding discount	**52**	-
Foreign exchange	**(20)**	-
Balance as at 31 December	**316**	284

20. FINANCIAL INSTRUMENTS (CONTINUED)

The Group is exposed to various risks in relation to financial instruments. Each of these is disclosed in the table below.

	Carrying amount 2020 £000	**Fair value 2020 £000**	**Level 3 2020 £000**	Carrying amount 2019 £000	Fair value 2019 £000	Level 3 2019 £000
Loans and receivables						
Cash and cash equivalents	26,724	26,724	-	5,957	5,957	-
Trade and other receivables	6,093	6,093	-	6,921	6,921	-
Financial assets measured at amortised cost	32,817	32,817	-	12,878	12,878	-
Financial assets measured at fair value	-	-	-	-	-	-
Total financial assets	**32,817**	**32,817**	-	12,878	12,878	-
Financial liabilities measured at amortised cost						
Trade payables and accruals	(2,425)	(2,425)	-	(2,479)	(2,479)	-
Financial liabilities measured at amortised cost	(2,425)	(2,425)	-	(2,479)	(2,479)	-
Contingent consideration	(316)	(316)	(316)	(284)	(284)	(284)
Financial liabilities measured at fair value	(316)	(316)	(316)	(284)	(284)	(284)
Total financial liabilities	**(2,741)**	**(2,741)**		(2,763)	(2,763)	
Total financial instruments	**30,076**	**30,076**		10,115	10,115	

CREDIT RISK

Financial risk management

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 Group generates external revenue from no customer that individually amounts to more than 10% of the Group revenue. At the 2020 year end the Group had a maximum credit risk exposure of £6.1m (2019: £6.9m).

The amounts presented in the statement of financial position are net of impairment provisions.

The Group's exposure to losses from defaults on trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees to be invoiced and paid annually in advance. Note 15 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

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.

20. FINANCIAL INSTRUMENTS (CONTINUED)

The concentration of credit risk for trade receivables at the balance sheet date by geographical region was:

	2020 **£000**	2019 £000
UK	**319**	1,766
Europe	**778**	146
USA	**1,823**	1,401
China	**386**	644
Rest of World	**135**	419
	3,441	4,376

LIQUIDITY RISK

Financial risk management

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 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 2020, its £0.5m bank facility was undrawn (2019: £0.5m undrawn). The Group had positive cash reserves of £27m at the 2020 year end, in addition to the £0.5m undrawn working capital facility, although £2.5m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly. There are no long term restrictions on the transfer of funds from the Group bank accounts in China.

The following are the contractual maturities of financial liabilities.

2020 **Non derivative financial liabilities**	**Carrying amount** **£000**	**Contractual cashflows** **£000**	**1 year or less** **£000**	**2 to 5 years** **£000**	**After 5 years** **£000**
Liabilities relating to right of use assets	2,084	2,084	488	1,538	58
Non current borrowings	815	815	-	815	-
Trade payables	466	466	466	-	-
	3,365	**3,365**	**954**	**2,353**	**58**

2019 Non derivative financial liabilities	Carrying amount £000	Contractual cashflows £000	1 year or less £000	2 to 5 years £000	After 5 years £000
Liabilities relating to right of use assets	2,569	2,569	565	1,950	54
Lease liabilities	18	18	18	-	-
Trade payables	912	912	912	-	-
	3,499	3,499	1,495	1,950	54

20. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK

Market risk - Foreign currency 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.

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 (2019: £0.1m).

The Group's exposure to foreign currency risk is as follows.

2020	**Sterling £000**	**Euro £000**	**US Dollars £000**	**Renminbi £000**	**Other £000**	**Total £000**
Cash and cash equivalents	9,312	1,044	12,326	2,562	1,480	26,724
Trade and other receivables	932	753	3,320	679	409	6,093
Liabilities relating to right off use assets	(519)	(289)	(646)	(1)	(629)	(2,084)
Non current borrowings	-	-	(815)	-	-	(815)
Trade payables	(191)	(56)	(223)	-	4	(466)
Net exposure	**9,534**	**1,452**	**13,962**	**3,240**	**1,264**	**29,452**

2019	Sterling £000	Euro £000	US Dollars £000	Renminbi £000	Other £000	Total £000
Cash and cash equivalents	355	737	1,535	1,924	1,406	5,957
Trade and other receivables	2,804	188	2,636	716	577	6,921
Liabilities relating to right off use assets	(666)	(309)	(730)	(16)	(848)	(2,569)
Lease liabilities	(18)	-	-	-	-	(18)
Trade payables	(574)	(14)	(330)	-	6	(912)
Net exposure	1,901	602	3,111	2,624	1,141	9,379

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 2020, 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 2020 and assuming no other changes occur (such as material changes in currency exchange rates) a change in interest rates should not have a material impact on net interest income/(expense).

21. CURRENT TAXATION

The Group current tax receivable is £0.7m, net of a payable of £0.2m (2019: receivable of £1.2m and payable of £0.4m) representing the amount of income tax receivable and payable in respect of the current and prior years.

The Company current tax payable is £nil.

22. DEFERRED TAX

Group	**2020 £000**	2019 £000
Deferred tax asset		
Amounts due to be recovered after 12 months	**(90)**	(506)
Total deferred tax liability	**(90)**	(506)

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

	2020 £000	2019 £000
At beginning of the year	**(506)**	(12)
Foreign exchange differences	**(10)**	-
Net charge to income for the year	**(357)**	(166)
Net debit to Other Comprehensive Income (OCI)	**840**	(6)
Net debit to goodwill arising on acquisitions during the year	**-**	(311)
Adjustments in respect of prior years	**(57)**	(11)
At end of the year	**(90)**	(506)

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 2019	(526)	437	383	(306)	(12)
Credit/(charge) to profit or loss for the year	116	(42)	(70)	(181)	(177)
Debit to OCI for the year	-	-	(6)	-	(6)
Debit to goodwill arising on acquisitions during the year	(311)	-	-	-	(311)
Adjustments in respect of prior years	-	-	-	-	-
At 31 December 2019	**(721)**	**395**	**307**	**(487)**	**(506)**
Foreign exchange differences	-	-	-	(10)	(10)
Credit/(charge) to profit or loss for the year	34	(126)	(90)	(175)	(357)
Debit to OCI for the year	-	-	518	322	840
Debit to goodwill arising on acquisitions during the year	-	-	-	-	-
Adjustments in respect of prior years	(4)	(60)	-	7	(57)
At 31 December 2020	**(691)**	**209**	**735**	**(343)**	**(90)**

22. DEFERRED TAX (CONTINUED)

Analysis of P&L deferred tax movement	Accelerated tax depreciation £000	Tax losses £000	Retirement benefit obligations £000	Other timing differences £000	Total £000
Current year movement	119	(165)	(90)	(119)	(255)
Impact of rate change-P&L	(85)	39	-	(56)	(102)
Total P&L for year (see above)	**34**	**(126)**	**(90)**	**(175)**	**(357)**

Analysis of OCI deferred tax movement	Accelerated tax depreciation £000	Tax losses £000	Retirement benefit obligations £000	Other timing differences £000	Total £000
Current year movement	-	-	482	322	804
Impact of rate change-P&L	-	-	36	-	36
Total OCI for year (see above)	**-**	**-**	**518**	**322**	**840**

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 2020 were £2.7m (2019: £0.2m) due to uncertainty over the timing of the recoverability of these losses.

23. RETIREMENT BENEFIT OBLIGATIONS

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

Defined contribution pension schemes

GROUP PERSONAL PENSION PLAN - the Scheme was created on 31 December 2008. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5%. The employer also contributes to the Scheme for former members of Instem LSS Pension Scheme at rates varying from 5% to 18%. Employer contributions for the year ended 31 December 2020 were £0.66m (2019: £0.65m).

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 2020 were £0.03m (2019: £0.03m).

INSTEM LSS (NORTH AMERICA) LIMITED 401K PLAN - the Plan was created for the benefit of employees of Instem LSS (North America) Limited in the USA. The Plan 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 2020 were £0.23m (2019: £0.18m).

LEADSCOPE INC 401K PLAN - the Plan was created for the benefit of employees of Leadscope Inc in the USA. The Plan is a defined contribution plan within the scope of IRS regulations, with employer matching contributions of 3% of compensation. Employer contributions for the year ended 31 December 2020 were £0.019m (2019: £0.002m). Leadscope was acquired by Instem on 15 November 2019.

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%. This scheme closed during 2020 and members transferred to the main Group Personal Pension Plan. Employer contributions for the year ended 31 December 2020 were £0.01m (2019: £0.01m).

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 statement of financial position of the Scheme in these accounts.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 5 April 2017 and the next valuation of the Scheme is due as 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 is possible that contributions may be reduced.

The Group currently expects to pay contributions of £530,000 in the year to 31 December 2021.

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.

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

A further judgment on The Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC (and others) case was made on 20 November 2020 and covered whether schemes are required to revisit past transfers. The guaranteed minimum pensions (GMP) equalisation judgment has resulted in an additional liability of £5,000 being recognised at 31 December 2020, and this has been allowed for as a profit and loss charge, within non recurring costs.

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.

Risk mitigation strategies

The investment manager has previously been instructed as to the permissible ranges for asset allocations as set out in the Scheme's current Statement of Investment Principles. Over the year, the Scheme invested in a portfolio of liability-driven assets, designed to hedge against interest rate and inflation risk.

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The net interest on the net defined benefit liability 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.

	2020 %	2019 %
Discount rate (pa)	**1.40**	2.20
Inflation (RPI pa)	**2.70**	2.80
Inflation (CPI pa)	**1.90**	1.80
Pension increase (RPI pa)	**2.70**	2.70
Pension increase (CPI pa)	**1.80**	1.70
Life Expectancy assumption (number of years from the age of 65)	**Years**	Years
Male currently aged 45	**23.8**	23.7
Female currently aged 45	**25.0**	24.8
Male currently aged 65	**22.8**	22.7
Female currently aged 65	**23.7**	23.6

ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	**2020 £000**	2019 £000
Interest on pension scheme assets	**266**	316
Interest on pension scheme liabilities	**(300)**	(376)
Net finance charge	**(34)**	(60)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME/ (EXPENSE)	**2020 £000**	2019 £000
Gains on assets in excess of interest	-	1,003
Experience losses on liabilities	**(351)**	-
(Losses)/gains from changes to demographic assumptions	**(53)**	261
Losses from changes to financial assumptions	**(2,133)**	(1,234)
Actuarial (losses)/gains recognised in other comprehensive income/(expense)	**(2,537)**	30

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	**2020 £000**	2019 £000
Opening defined benefit obligation	**13,773**	12,655
Interest cost	**300**	376
Past service cost and GMP reserve	**5**	-
Benefits paid	**(235)**	(231)
Experience loss on liabilities	**351**	-
Changes to demographic assumptions	**53**	(261)
Changes to financial assumptions	**2,133**	1,234
Closing defined benefit obligation	**16,380**	13,773

CHANGES IN THE FAIR VALUE OF PLAN ASSETS	**2020 £000**	2019 £000
Opening plan assets	**11,969**	**10,406**
Interest on assets	**266**	**316**
Return on plan assets less interest	-	**1,003**
Company contributions	**512**	**475**
Benefits paid	**(235)**	**(231)**
Closing plan assets	**12,512**	**11,969**

The actual return on assets was a positive return of £266,000 (2019: positive return £1,319,000).

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**2020 £000**	2019 £000
Present value of funded obligations	**(16,380)**	(13,773)
Fair value of plan assets	**12,512**	11,969
Net pension liability	**(3,868)**	(1,804)
Related deferred tax asset	**735**	307
Net pension liability after deferred tax	**(3,133)**	(1,497)

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY	**2020 £000**	2019 £000
Net defined benefit liability at start	**1,804**	2,249
Past service cost and GMP reserve	**5**	-
Net interest expense	34	60
Remeasurements	**2,537**	(30)
Employer contributions	**(512)**	(475)
Net defined benefit liability at end	**3,868**	1,804

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME/(EXPENSE)	**Cumulative 2020 £000**	Cumulative 2019 £000
Actual return less expected return on assets	**2,094**	2,094
Experience losses on liabilities	**(1,979)**	(1,628)
Changes in demographic assumptions	**562**	615
Changes in financial assumptions	**(6,555)**	(4,422)
Cumulative actuarial loss recognised in the OCI	**(5,878)**	(3,341)
Actuarial (loss)/gain recognised in the OCI in the period	**(2,537)**	30

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

	2020		2019	
	£000	%	£000	%
Equities	**5,842**	**47**	7,277	61
Property	**717**	**6**	655	5
Bonds	**858**	**7**	1,109	9
Corporate Bonds	**2,033**	**16**	1,799	15
LDI	**994**	**8**	-	-
Cash	**122**	**1**	338	3
Other	**1,946**	**15**	791	7
	12,512	**100**	11,969	100

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Present value of defined benefit obligation	**(16,380)**	(13,773)	(12,655)	(14,549)	(14,436)
Fair value of plan assets	**12,512**	11,969	10,406	10,799	9,690
Deficit	**(3,868)**	(1,804)	(2,249)	(3,750)	(4,746)
Experience (losses)/gains on liabilities	**(351)**	-	65	156	-
Return on plan assets less interest	-	1,003	(957)	686	1,252

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

Adjustments to assumptions Approximate effect on liabilities	£000
DISCOUNT RATE	
+ 0.50% pa	(1,331)
- 0.50% pa	1,511
INFLATION	
+ 0.50% pa	1,299
- 0.50% pa	(1,160)
MORTALITY	
Life expectancy + 1 year	469
Life expectancy - 1 year	(446)

24. PROVISION FOR LIABILITIES

	2020 £000	2019 £000
At 1 January	**250**	250
Increase in provision during the year	-	-
At 31 December	**250**	250

The Group holds a provision of £0.25m (2019: £0.25m) in respect of historical contract disputes against a maximum exposure of approximately £4.0m (2019: £1.5m). The maximum exposure has increased since last year end due to additional claims for consequential losses. There are uncertainties around the outcome of contract disputes and any settlements may be higher or lower than the amount provided. The directors believe the provision represents the best estimate of the risks and considers all information and legal input received by the Group. The assumptions made in relation to the current period are consistent with those in the prior year. The utilisation of this provision is still expected to happen within two years due to the legal process taking longer than originally anticipated.

25. SHARE CAPITAL

The share capital of Instem plc consists only of fully paid ordinary shares with a nominal value of 10p per share.

SHARES ISSUED AND FULLY PAID:	**2020 £000**	2019 £000
Beginning of the year	**16,623,078**	15,917,931
Issued on exercise of employee share options	**238,141**	473,181
Share issue on acquisition of Leadscope Inc	-	231,966
Share issue, placing	**3,620,690**	-
Total shares issued and fully paid at 31 December	**20,481,909**	16,623,078

Additional shares were issued during 2020 relating to share-based payments (see note 9 for details on the Group's share-based remuneration).

On 26 June 2020, the Group announced the issue of 3,620,690 new shares through a placing to raise funds to support acquisition activities, corresponding to 22% of total shares issued.

In addition the Group launched an all-staff share and option scheme, with staff receiving the right to 386,686 ordinary shares of 10p each in the Company that will vest in April 2023.

Share premium

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less fees, commissions and disbursements. Costs of new shares charged to equity amounted to £0.7m (2019: £nil).

Share premium has also been recorded in respect of the issue of share capital related to employee share-based payment.

26. EARNINGS PER SHARE

Basic and diluted earnings per share

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. The diluted loss per share in 2019 is the same as basic loss per share with losses having an anti-dilutive effect.

	2020			2019		
	Profit after tax (£000)	**Weighted average number of shares (000's)**	**Profit per share (pence)**	Loss after tax (£000)	Weighted average number of shares (000's)	Loss per share (pence)
Earnings per share - Basic	**2,274**	**18,421**	**12.3**	(923)	16,254	(5.7)
Potentially dilutive shares	-	**1,231**	-	-	799	-
Earnings per share - Diluted	**2,274**	**19,652**	**11.6**	(923)	17,053	(5.7)

26. EARNINGS PER SHARE (CONTINUED)

Adjusted earnings per share

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, impairment of goodwill and capitalised development 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.

	2020			2019		
	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	**3,752**	**18,421**	**20.4**	3,138	16,254	19.3
Potentially dilutive shares	-	**1,231**	-	-	799	-
Earnings per share - Diluted	**3,752**	**19,652**	**19.1**	3,138	17,053	18.4

Reconciliation of adjusted profit before tax:	**2020 £000**	2019 £000
Reported profit/(loss) before tax	**2,549**	(901)
Non-recurring costs	**606**	302
Amortisation of acquired intangibles	**664**	523
Impairment of goodwill and capitalised development costs	-	3,175
Foreign exchange differences on revaluation of inter-group balances	**208**	61
Adjusted profit before tax	**4,027**	3,160
Tax	**(275)**	(22)
Adjusted profit after tax	**3,752**	3,138
Profit/(loss) after tax	**2,274**	(923)

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.

27. CAPITAL AND RESERVES (CONTINUED)

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 and
- the difference between the nominal value and share issue price of shares issued as consideration in the purchase of Leadscope Inc

Share based payment reserve

The share based payment reserve represents the fair value of shares options periodically awarded to employees and executive directors, which is charged to the statement of comprehensive income.

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, share based payment reserve, 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 (2019: £nil).

29. RELATED PARTY TRANSACTIONS

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year, the Group traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £1.0m (2019: £1.0m). The net intercompany balances due from the Company at the year-end totalled £4.5m (2019: due from: £0.3m).

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:	**2020 £000**	2019 £000
Group and Company		
Fees for services provided as Non-Executive Directors		
Salaries and short-term benefits	**138**	120
Employer's national insurance & social security costs	**15**	13
	153	133
Group		
Executive Directors		
Salaries and short-term benefits	**385**	359
Post-employment retirement benefits	**44**	43
Employers' national insurance & social security costs	**34**	29
Share based payment charge	**98**	21
	561	452
Group		
Other key management		
Salaries and short-term employee benefits	**1,062**	1,047
Post-employment retirement benefits	**77**	59
Employers' national insurance & social security costs	**74**	99
Share based payment charge	**154**	54
	1,367	1,259

The Company paid £0.05m (2019: £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 (2019: £nil).

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

30. CONTINGENT LIABILITIES

Instem plc has provided a guarantee to its subsidiaries which have taken advantage of the exemption from audit. Under this guarantee, the company has a contingent liability of £16.4m (2019: £9.0m).

31. SUBSEQUENT EVENTS

No adjusting events have occurred between the 31 December reporting date and the date of approval of these financial statements.

On 25 of January 2021, Instem Information Systems (Shanghai) Limited signed a new office lease for 2 years in Pudong New Area, Shanghai.

On 1 March 2021, Instem announced the acquisition of The Edge Software Consultancy Ltd ("The Edge"), a safety assessment software provider based in the UK. The Edge is focused on improving the efficiency of early stage drug R&D, improving productivity and ensuring high-quality data capture. In the year ended 31 July 2020, The Edge had unaudited, normalised profits before tax of £1.7m on sales of £2.7m, of which £0.8m was recurring revenue. Its 2020 sales benefitted from high levels of professional services revenue, expected to be replaced by significant future growth in recurring software revenue. The consideration payable is up to £8.5m , payable as £6.0m initially, satisfied by £4.0m in cash from existing reserves and £2.0m via the issuance of 391,920 new ordinary shares in Instem plc, £0.5m of deferred consideration and up to a further £2.0m payable contingent on The Edge's future trading performance, both amounts payable in cash.

On 20 March 2021, Instem exchanged contracts to acquire US-based clinical trial technology & consulting leader d-Wise Technologies, Inc ("d-wise"). The acquisition was completed on 1 April 2021. d-wise adds a market leading position to the Group in an attractive adjacent area of clinical trial analysis and submission, with good future visibility through recurring revenue streams and already contracted, high value consultancy projects. In the year ended 31 December 2020 d-wise had unaudited adjusted profit before tax of $3.1m and adjusted EBITDA of $3.6m on sales of $24.1m. Approximately 30% of revenue was recurring SaaS, hosting services and software support and maintenance. As at 31 December 2020, d-wise had net assets of $4.8m. The combined strength of Instem & d-wise positions the enlarged Group as the foremost authority and driving force in generating, analysing and leveraging data from Discovery through late-stage Clinical Trials. The total consideration is up to $31m comprising $20m on completion, $8m of deferred consideration and up to a further $3m which is payable contingent upon the future financial performance of d-wise. The initial consideration on completion is being satisfied by $13m in cash and $7m via the issuance of 868,203 new ordinary shares of 10p each in Instem plc. The cash is being funded from the Group's existing financial resources.

The results of both acquisitions will be incorporated from the date of acquisition and will be disclosed in the half year results to 30 June 2021.

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D M Sherwin (Non- Executive)
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