

**Increases
efficiency**

Improves patient care

healthcare without boundaries

EMIS Group plc
Annual report and accounts 2012

Connected

Secure

Consistent

Reliable

Interoperable

EMIS Group plc is transforming the face of healthcare delivery for GPs and other healthcare practitioners.

Our aim is to make good quality, timely, patient information available any time, any place, anywhere through interoperable systems.

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GP appointment booking app

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See more online
www.emis-online.com



“EMIS Group was very busy again in 2012, in particular accelerating the roll-out to GPs of EMIS Web, our transformational healthcare system, and RX Systems continuing to grow its estate.”

Chris Spencer
Interim Chief Executive

Financial highlights

Total revenue

£86.3m

+18%

Adjusted operating profit⁽¹⁾

£22.8m

+10%

Recurring revenue

£69.4m

+14%

Adjusted EPS⁽¹⁾ from continuing operations

30.76p

+11%

Proposed dividend

7.1p

+15%

Total dividend for the year

14.2p

+15%

(1) Excludes exceptional items and capitalised development costs and adds back all amortisation charged in the year. For EPS calculations also adjusts for the related tax impact.

Operational highlights⁽¹⁾

UK GP software market leading position maintained:

- UK market share 51.2% (5,113 GP practices) (2011: 51.6% (5,247 GP practices))

EMIS Web GP roll-out transitioned from controlled to accelerated status and by the year end:

- 1,635 GP practices live (2011: 360)
- 1,252 unfulfilled orders (2011: 1,565)
- 2,564 practices in the EMIS Web GP familiarisation service (2011: 2,359)

RX Systems:

- High street pharmacy numbers increased to 4,595 pharmacies (market share 34.8%) (2011: 4,338 pharmacies, 34.4%)
- Electronic Prescription Service (EPSR2) successfully rolled out into nearly all of its estate

New Group HQ successfully refurbished and occupied

Transformation of healthcare delivery in the UK opening up new markets:

- EMIS Web Community Care, Child Health and Mental Health (CCMH) pathfinder projects progressing and development and commercial focus now in hand
- EMIS Web Mobile developed and launched
- EMIS IQ GP Extraction Service (GPES) contract successfully delivered in line with milestones
- Healthcare Gateway beginning to gain traction as pilots move to full agreements

(1) EMIS and RX Systems data estimated based on company records showing customers installed as at 31 December 2012. 31 December 2011 data for GP practices has been restated to exclude 150 practices where EMIS software was ordered but not installed as at that date.

Our business

Our core objective is to profitably improve the health of communities by developing systems to help clinicians and others involved in patient care to create and mobilise each patient's electronic healthcare record.

An integrated care ecosystem

Our business provides a range of services across healthcare

Patient Services

Patient.co.uk is the UK's leading independent health information and healthcare transactional site. It helps patients play a key part in their own care with an information library, health apps, online and mobile services such as GP appointment booking and repeat prescription ordering.

Healthcare Record Systems

EMIS Web allows primary, secondary and community healthcare practitioners to view and contribute to a patient's cradle-to-grave healthcare record. This can improve patient care and increases efficiency.

Healthcare Gateway facilitates the sharing of patient data via the medical interoperability gateway (MIG). EMIS IQ meets the demand for high quality clinical and management information to support the national General Practice Extraction Service (GPES).

Data Sharing

“EMIS Web has revolutionised our lives, saved an enormous amount of time and undoubtedly made the journey in and out of hospital much safer for patients. We have also been able to improve communication with GPs about changes to patients’ therapy while they are in hospital.”

Lynn Bruce

Pharmacy Team Leader, Medical Assessment Unit, Royal Blackburn Hospital

Pharmacy

RX Systems is a major supplier of software to pharmacists. The ProScript software is the most widely used community pharmacy dispensary management system in the UK, efficiently managing the dispensary process, labelling and endorsing patient records, ordering and stock control.

Egton specialises in the supply of ICT infrastructure, application software, hosting and value added services to healthcare and other public and private sector organisations.

Hardware

UK market share



UK GP software*

51.2%

UK Pharmacy software

34.8%



Find out more about
Emis Web online at
www.emis-online.com/emis-web

*If you include orders for our systems that have not yet been deployed, our market share is slightly higher at 53.7%

Our products and strategy

Our products, positioning and initiatives are aligned perfectly with the goals of the NHS. They offer us access to substantial medium and long-term growth opportunities whilst allowing us to help the NHS to do more for less.

Patient records

We estimate that over half of all patient records in GP practices are stored in software supplied by EMIS.

These records contain a complete medical history and they build from birth. They are unique.

No similar record exists in hospitals or clinics elsewhere. Yet the data contained within them would be hugely valuable if it were more broadly accessible. The efficiency gains would be enormous, avoiding duplicated effort as well as removing delay, which is costly in both time and quality of outcome.

Core products

General practice

EMIS Web for GPs is progressively replacing our LV and PCS products in England and Wales. During 2013 we will continue to develop the existing PCS product in Scotland. This will also involve looking at local and national requirements for next generation technologies across the NHS in Scotland.

EMIS mobile technology will be an area of growth across all our care settings.

Pharmacies

Rx Systems' ProScript is EMIS Group's Pharmacy management product. This year sees the launch of medicines management services integrated with EMIS GP products. Over the longer term, ProScript will be replaced with a next generation product as we bring pharmacies and GPs even closer together.

Community care

EMIS Group already has pathfinder EMIS Web installations for Community Care and Child Care with a number of its enterprise healthcare partners realising the benefits of the integration with GPs conferred by the EMIS Web Ecosystem. These products are being developed and commoditised by a new business unit within EMIS to bring focus into this market.

Specialist care

As the demographics of the baby boom years take effect and long-term conditions become more prevalent, this market is evolving to support care pathways which span primary and secondary care organisations, as part of integrated care provision. EMIS Group will produce specialist care pathways and tools to assist with, for example, diabetic care, COPD and cystic fibrosis keeping to its core principles of not only sharing data across multiple services but creating intelligent clinical support tools that deliver improved healthcare, efficiency and scalability for clinical services.

“For the first time, I will have complete information on how we are performing across the whole group practice. EMIS Web is essential to us in bringing all the information and work processes together so that we can develop and improve services. We certainly expect to make economies of scale, improve clinical governance and streamline care as we share templates and protocols among all of the staff.”

Yvonne Waddingham

Practice Manager, Pelham Medical Group, Grimsby

Support products

Data services

EMIS IQ's data services are essential for EMIS to support customer and governmental policies around 'Open Data'. This market is moving beyond supportive data extraction into data analytical services and provision of tools to effect clinical change.

Hardware services

These supportive services, usually provided under our Egton brand, have moved beyond just selling hardware into installing and supporting (via a national network of support engineers) hosting and networks and these services are likely to grow across EMIS Group.

Interoperability tools

EMIS Connect and the MIG are essential supporting components for our modern core products and help 'glue together' not only elements of the EMIS Group ecosystem but also other parts of NHS IT.

Spectrum of healthcare delivery in the UK

The spectrum of healthcare delivery in the UK stretches from GPs on one side (primary care) to acute hospitals on the other (secondary care). In between are a myriad of other specialised services and niches, some delivered through community care programmes, others through very targeted services and facilities. The vision of the NHS is for all of these contributors to healthcare provision to be connected and to be able to utilise patient data in a way that maximises operational efficiency and optimises the quality of patient outcomes. As the provider of the key technologies that store and deliver access to the richest vein of patient data, the GP record, EMIS is perfectly positioned to play a leading part in the journey to “connect all”, which is the NHS goal. EMIS may in some cases act simply as a data repository and access provider. It can do much more, however. Its outstanding track record in application software design and delivery makes it a prime candidate to deliver elegant and seamless connectivity between disparate operations by building software that automates activity at each end of the various connections that will be constructed over future years.

Chief Executive's review

EMIS Group's core objective is to improve patient care by helping clinicians to create and mobilise each patient's electronic healthcare record.



EMIS Group, through its subsidiary companies EMIS and RX Systems, is a major provider of healthcare software, information technology and services in the UK. EMIS is the UK GP software market leader with 51.2% (2011: 51.6%) of UK GP practices. RX Systems provides healthcare IT, software and services to 34.8% (2011: 34.4%) of UK high street pharmacies.

EMIS Group's core objective is to improve the health of communities by developing systems to help clinicians and others involved in patient care to create and mobilise each patient's electronic healthcare record. Through EMIS Web and its other products, the Group is continuing to make significant progress towards the delivery of cross-organisational, integrated healthcare systems: an objective completely aligned with NHS strategy.

In 2013 and beyond, EMIS Group expects to assist with and benefit from the "connect all" healthcare strategies being pursued throughout the UK with information sharing being widely seen as the key to better care outcomes and reduced cost. With effect from April 2013 these policies will start to be driven forward in England by Clinical Commissioning Groups (CCGs) along with the NHS Commissioning Board (NHS CB).

The roll-out of EMIS Web to GPs and other products and initiatives represent substantial medium and long-term growth opportunities for the Group.

Business and financial review EMIS GP Systems⁽¹⁾

EMIS's overall UK GP market share remained broadly unchanged at 51.2% (5,113 GP practices) (2011: 51.6% (5,247 GP practices)). The user base remains loyal and over 70% of EMIS UK GP practices have used an EMIS system for over ten years, reflecting the quality of EMIS's offering. This was achieved despite continuing practice consolidation and competitor activity.

Discussions about the renewal of the English GPSoc Framework continue. As the formal re-procurement has not yet been initiated, clear indications have been given that the previous framework will be deemed to remain in place to secure vital continuity of service pending the formal tender process. Similar indications have been given relating to Northern Ireland.

Comberton Surgery, Cambridgeshire

Delivering tablet consultations with EMIS Mobile.

“

We consider EMIS Mobile an essential tool for any GP on the move who is looking after patients in nursing or residential homes. The user interface is superb – I would say outstanding. It is practical and user friendly with clean, easily readable navigation. I like the functionality; it is easy to move around the patient record, and synchronisation is simple. In fact, EMIS Mobile is completely intuitive to use – I know that I could give it to a technophobe colleague and they would be using it within minutes. Security is very important for all GPs and the encryption feature makes it very safe for us.”

Dr Alan Mills

Partner, Comberton Surgery, Cambridgeshire



Key benefits:

Access patient records on the move

Add consultations

Check appointment schedules and user diary

In Scotland EMIS's system is one of only two available to GPs and the deployed 517 practices (51% of the market) are generating a recurring revenue stream of £2m per annum. To support these customers, a Scottish field-based engineering team was recruited in the final quarter of 2012. In February 2013 EMIS opened a Scottish hub office. This will also form the base for developers to enhance the Group's Scottish products for the GP, CCMH and other integrated markets in the country.

The withdrawal of iSoft from the UK Primary Care market led to considerable sales activity and required additional resources aimed at capitalising on the opportunity for iSoft practices to join EMIS. This was especially focussed on Wales where not only did iSoft hold 14.5% of the market but also EMIS was awarded one of only two Framework Agreements for the supply of a managed EMIS Web GP service solution. EMIS expects to win a significant number of the 492 iSoft practices across the UK.

EMIS Web GP

Throughout 2012, EMIS accelerated the roll-out to GPs of EMIS Web, its transformational healthcare IT system. There were 1,635 GP practices using EMIS Web by the end of the year (2011: 360). The EMIS Web Familiarisation Service (provided for those practices planning to upgrade to EMIS Web) was, at the year end, installed in 2,564 practices (2011: 2,359). In total there were 1,252 unfulfilled orders for EMIS Web GP by the end of 2012; this figure now stands at 1,200.

Maximum sustained delivery capability remains in the order of 200 EMIS Web practices per month. Taking into account seasonal and other factors the average is likely to be similar to that in the second half of 2012 and EMIS expects to have deployed substantially all of its outstanding EMIS Web GP order book by the end of 2013.

A mobile version of EMIS Web was completed, tested and released in early 2013. This enables

GPs and those in CCMH and other integrated care settings to access the core elements of EMIS Web on a tablet device when away from their clinical base.

EMIS Web CCMH

The ongoing EMIS Web pathfinder projects, integrating other healthcare services with EMIS' GP systems (in particular in CCMH), generally progressed well through 2012 and successfully demonstrated the clinical benefits of the Group's integrated solutions. The procurement hiatus created by the move from Primary Care Trusts (PCTs) to CCGs is having some impact on the level of revenues and new contract wins in this part of the business, although this is expected to be largely resolved during 2013. EMIS has made some internal changes to sharpen focus, including recruiting a Head of CCMH and continued refinement of the product offerings. This will position the Group well to benefit from the coming market opportunities in this area.

⁽¹⁾ EMIS and RX Systems data estimated based on company records showing customers installed as at 31 December 2012. 31 December 2011 data for GP practices has been restated to exclude 150 practices where EMIS software was ordered but not installed as at that date.

Chief Executive's review continued

Day Lewis Pharmacy, Isle of Wight

ProScript software is the most widely used community pharmacy dispensary management system in the UK.

“

ProScript provides a number of features that make the dispensing process much easier to manage, such as retrieving the balance of a prescription owing to the patient, and printing of repeat requests for patients. We also like the nomination procedure for EPS Release 2, which is very accessible. And the colour-coded screens help with identifying key information on patients with particular conditions and with repeat management items.”

Carmel Conroy

Pharmacist, Day Lewis Pharmacy, Isle of Wight



RX Systems

RX Systems, whose ProScript software is the most widely used community pharmacy dispensary management system in the UK, had another successful year in which it continued to grow its user base to 4,595 community pharmacies, 34.8% of the UK market (2011: 4,338 pharmacies, 34.4%). RX's underlying user base has increased by 6% over the last twelve months.

RX also successfully rolled out EPSR2 in England (which enables prescribers, primarily GPs, to send prescriptions electronically to pharmacists) into nearly all of its estate. During the year a pharmacy message broker was developed by EMIS and rapidly deployed by EMIS and RX into approximately 4,000 RX sites over three months. This message broker functionality was previously licensed from a third party and will increase the level of business intelligence resident within the ProScript application.

During the second half of 2012, negotiations took place with Multepos Computer Systems Limited, the pharmacy retail systems supplier in which RX Systems already held a 25% shareholding, and, on 14 January 2013,

the remaining shares were acquired for a cash consideration of £0.8 million, financed from the Group's existing cash resources.

Healthcare Gateway

Healthcare Gateway Limited (HGL) is a 50:50 joint venture company, established with INPS in 2010, to facilitate the sharing of patient data via a medical interoperability gateway (MIG). 2012 saw considerable commercial progress by HGL. This was reflected in the final quarter of 2012 with the execution of nine MIG contracts for the delivery of Detailed Care Record and Electronic Clinical Correspondence services. HGL customer locations reflect strong EMIS and INPS GP system penetration areas and are clustered predominantly in the North West of England and London. However, in January 2013, the remaining GP suppliers also indicated their intention to make the data from their systems available through the MIG which would offer access to virtually all Primary Care data in every part of the UK.

EMIS IQ

EMIS IQ, the division established to meet the demand for high-quality clinical and management information, successfully delivered against the milestones under its

contract with the NHS Information Centre to provide a secure data extraction service to support the national General Practice Extraction Service (GPES). GPES is a centrally managed system that obtains information from GP practices across England for specific, approved purposes, using robust information governance principles to ensure patient confidentiality and privacy.

Patient.co.uk

Patient.co.uk, a patient information website to help patients play a key part in their own care, redesigned its site, developed a new underlying technology platform, and launched a social media strategy. This led to a 42% growth in total visits to the site for 2012 compared with 2011. In January 2013, the site had 5m unique visitors and 11m page impressions. 2012 also saw the development and release of several patient-focussed apps: the first app reaching number one in the iTunes health app store.

Board

Following the year end, Sean Riddell, Chief Executive of EMIS Group, indicated his intention to retire from his full-time executive role to focus on his family commitments. Sean will

GP, Shepherds Bush

First GP appointment booking app launched.

“

Over a third (39%) of visits to the Patient.co.uk site are now via mobile device. As a working GP, this isn't surprising to me – more and more of my patients are seeking out new ways, often involving technology, to manage their health. Booking GP appointments and ordering repeat prescriptions quickly and easily via an app is a significant development that is absolutely in tune with modern living.”

Dr Sarah Jarvis

Clinical consultant at Patient.co.uk, and a GP in Shepherds Bush, London

Enables patients to:Order repeat prescriptionsSecurely message their practiceUpdate personal details e.g. change of address

formally step down from his executive role from 21 March 2013, but will remain on the Board as a non-executive Director to ensure a smooth transition of responsibilities and retention of his sector experience.

Chris Spencer, with effect from 21 March 2013, becomes Chief Executive on an interim basis; he joined the Board to work alongside Sean as Joint Chief Executive in early February 2013. Chris joined EMIS in 1999 and his recent roles have included those of Chief Administrative Officer, Group Counsel and Company Secretary. He has been a member of EMIS's senior management strategy forum since 1999.

The Board has begun a recruitment process to select a permanent successor for Sean, with both external and internal candidates being considered.

Andy McKeon was also appointed as a new non-executive Director on 4 February 2013. Andy has enjoyed a long and distinguished career in the senior echelons of the Department of Health and the NHS and has broad knowledge of the healthcare IT sector. He is a non-executive director of the National Institute for Health and Clinical Excellence (NICE). Andy's appointment ensures an appropriate

balance of Directors on the Board and adds relevant skills and expertise.

Ethos and People

Throughout an extended period of recruitment, EMIS Group has, through selection and training, maintained its "healthcare first" ethos and reputation. The Board is pleased with progress and performance to date, and thanks all employees for their innovation, commitment and hard work. Without them this year's acceleration of the EMIS Web GP roll-out could not have been achieved.

Summary and Outlook

EMIS Group continues to trade in line with the Board's expectations, with continuing strong revenue visibility.

Maintaining the accelerated roll-out of EMIS Web GP through 2013 remains the primary focus for both the sales and deployment resources whilst also capitalising on the announced withdrawal of iSoft from the Primary Care market. These drivers underpin expected strong growth in revenues during 2013 and beyond.

The Board is encouraged by the prospects for RX Systems and, in the medium term,

the ability of the Group to leverage its already strong market positioning in the GP marketplace to exploit further growth opportunities for EMIS Web CCMH, integrated care and other adjacent markets. The Group will maintain its considerable investment in development and other resource in these and other related areas through 2013 in order to take advantage of these opportunities.

Overall, the Board believes the Group is making significant progress towards delivery of its strategic vision of cross-organisational healthcare systems.

Chris Spencer
Interim Chief Executive
(from 21 March 2013)

Financial review

The Group continued to make good progress during the year under review with double-digit percentage increases in key profitability metrics, achieved despite a significant increase in the cost base of the business.



The Group continued to make good progress during the year under review with double-digit percentage increases in key profitability metrics, achieved despite a significant increase in the cost base of the business.

Operating profit for the year was £24.1m (2011: £21.5m) while adjusted operating profit as set out in the table opposite was £22.8m (2011: £20.8m).

Revenue

Group revenue from continuing operations increased by 18% to £86.3m (2011: £73.2m).

Group recurring revenue, principally licensing, software support and hosting was £69.4m (2011: £61.1m). This represented 80% of total revenue and underpins the ability of the business to invest with confidence in the future.

Key drivers of growth within the EMIS business included the following:

- hosting to NHS Connecting for Health standards (including incremental EMIS Web recurring revenues), which amounted to £9.0m (2011: £5.8m);
- licences and software support, which increased to £31.5m (2011: £28.9m) due to additional revenues in deployment, CCMH and other integrated care and in Scotland;

- hardware and training, which were driven primarily by a £2.0m increase in training revenues to £9.7m (2011: £7.5m); and
- increases in other revenues which totalled £5.7m (2011: £3.5m), principally due to activity in the defence sector and data transfer revenues associated with the EMIS Web GP roll-out.

The growth in revenue and profit within RX Systems reflected the expansion of its estate over the year and also £1.6m of revenue associated with the roll-out of EPSR2, which was largely completed by the end of the year.

Profitability

Adjusted operating profit increased by 10% to £22.8m (2011: £20.8m) with increased contribution from both EMIS and RX Systems further to their growth in revenues. This was achieved despite a significant increase in the staff costs of the business as the Group scaled up for the accelerated roll-out of EMIS Web GP and also continued to invest in product enhancements for the future. Average staff numbers increased to 1,116 (2011: 898) with 1,236 staff employed at the end of the year (2011: 972).

After accounting for capitalised development costs, the amortisation of intangibles and exceptional transaction costs of £0.4m (one-off

professional costs incurred investigating the acquisition of complementary businesses), statutory operating profit was £24.1m (2011: £21.5m), an increase of 12%.

Taxation

The tax charge for the year of £4.6m is after taking into account a reduction in deferred tax provisions of £1.0m arising from a lowering of the future rate of corporation tax from 26% to 23%.

Earnings per share ("EPS")

Adjusted basic and diluted EPS increased by 11% to 30.76p and 30.71p respectively (2011: 27.69p for both measures). The statutory basic and diluted EPS from continuing operations were 32.55p and 32.50p (2011: 28.71p).

Dividend

The Directors have adopted a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting on 30 April 2013, the Board proposes paying a final dividend of 7.1p (2011: 6.2p) per ordinary share on 3 May 2013 to shareholders on the register at the close of business on 19 April 2013. This would make a total dividend of 14.2p (2011: 12.4p) per ordinary share for 2012, an increase of 15%, reflecting the growth in earnings and the Board's confidence in the Group's future prospects.

Selected financial extracts (rounded)

	2012			2011		
	EMIS £m	RX £m	Total £m	EMIS £m	RX £m	Total £m
Revenue	69.8	16.5	86.3	59.6	13.6	73.2
Segmental operating profit	22.5	3.0	25.5	20.7	1.6	22.3
Development costs capitalised	(5.3)	—	(5.3)	(3.8)	—	(3.8)
Amortisation of intangibles	2.7	0.8	3.5	2.2	0.9	3.1
Adjusted segmental operating profit	19.9	3.8	23.7	19.1	2.5	21.6
Group operating expenses			(0.9)			(0.8)
Adjusted operating profit⁽¹⁾			22.8			20.8
				Pence		Pence
Continuing operations:						
EPS – reported				32.55		28.71
EPS – adjusted				30.76		27.69

(1) 2012 is adjusted to exclude exceptional transaction costs of £0.4m.

Cash flow

The principal movements in net cash were as follows:

	2012 £m	2011 £m
Cash from operations:		
Generated from continuing operations	32.7	30.9
Less: internal development costs capitalised	(5.3)	(3.8)
	27.4	27.1
Discontinued operation	—	(0.8)
Contingent consideration for acquisition	(0.8)	(0.2)
Acquisition of property, plant & equipment and software	(12.8)	(6.2)
Net finance costs	—	(0.1)
Transactions in own shares	(1.8)	(0.9)
Tax paid	(4.6)	(5.6)
Dividends paid	(7.7)	(6.9)
	(27.7)	(20.7)
Change in net cash in the year	(0.3)	6.4
Net cash at end of year (note 32)	7.7	8.0

The Group typically has a seasonal cash flow profile, with stronger inflows in the first half reflecting annual licence renewals.

Net cash flow generated from operations was consistent with the previous year at £27.4m (2011: £27.1m). Net capital expenditure increased to £12.8m (2011: £6.2m), driven primarily by investment in hosting assets, computer equipment and the Group's new

head office which was refurbished and occupied during the year. Since the year end, the Group has also acquired additional freehold premises in central Leeds, for a consideration of £1.5m, to consolidate and expand the existing leasehold premises used for warehousing, engineering services and hosting.

In addition, the Group's Employee Benefit Trust spent a net £1.8m (2011: £0.9m) on acquiring shares in the market. After tax and dividends, net cash reduced by £0.3m to £7.7m (2011: £8.0m), comprised of cash of £11.1m and bank debt of £3.4m.

Peter Southby
Chief Financial Officer
20 March 2013

Corporate social responsibility

Over 70 managers have during the year attended a professionally presented bespoke 'Leadership Essentials' programme.

Highlights

- Over 1,700 training sessions and meetings held online
- Second employee free share offer
- Accidents (excluding fleet) reduced by 11% in 2012

A member of



The company continues to be committed to building a sound Corporate Social Responsibility (CSR) framework. The EMIS Group Corporate Social Responsibility Policy covers the key areas of:

- Employees
- Health and Safety
- Engagement with the Wider Community
- Environment
- Ethical Business Practices

Employees

Staff development and wellbeing are crucial to attracting and retaining the right people which, in turn, holds the key to the success of our business. In 2012, 406 new employees were recruited by a variety of means including a recruitment open day in Leeds city centre, working with local universities and engaging with local companies.

To ensure our employees continue to develop their skills, over 70 managers have during the year attended a professionally presented bespoke "Leadership Essentials" programme. The course content covered areas such as effective communication and performance coaching. In 2013 work will continue to embed these core skills into the business and ensure our talented staff have the training, skills and support needed to drive the business forward.

A comprehensive online induction course is undertaken by all employees to gain a wider understanding of the business. This initial knowledge is further developed by regular monthly communications from the MD of each subsidiary company and the Chief Executive of the Group on the performance of the business and market and product updates. External technical courses are also attended where appropriate.

There continued to be a wide variety of online e-learning solutions available to staff to allow them to develop technically and professionally. Over 1,700 training sessions and meetings were held on line in 2012, an increase of 32% on the previous year.

After 12 months' employment, all UK employees can participate in The EMIS Group plc Share Incentive Plan (the "SIP"). In November 2012, through the SIP, the company also made an offer of free shares to all employees who had been employed by the Group for twelve months on 31 August 2012. The number of free shares per employee was determined with reference to length of service and salary. 78% of those eligible took up the offer of the free shares.

We are committed to developing the right working culture and offer a range of employee benefits including part-time working, flexible hours, a modern office environment, discounted gym memberships and travel cards. Work has commenced to ensure we meet our auto-enrolment requirements in 2013.



Neil Laycock speaks to all the managers on the Leadership Essentials course.

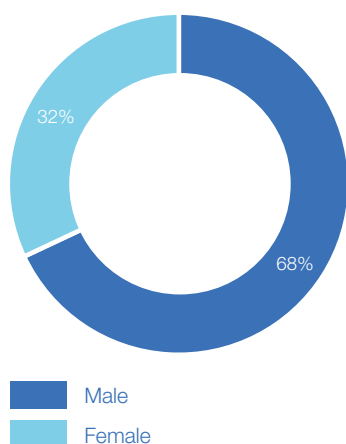


For the first time at Egton, we have taken on apprentices working in systems support, the service centre, procurement and administration. All are studying for qualifications.



Staff participating in the Give and Gain day.

Employee diversity



Employee numbers



2012: 1,236



2011: 972

Health and safety

The company is committed to the promotion of a positive safety culture and there are well established systems and policies in place. Mandatory health and safety training was provided to all employees, starting on the induction course and then targeted as appropriate. Overall 342 employees were trained in 2012 as part of their induction and a further 457 other health and safety courses were taken during the year, many of them online.

All accidents and incidents are monitored and reviewed so that action can be taken where necessary. The reporting systems continue to be reviewed and improved. This has allowed analysis of the most common types of incident and the identification of any training requirements. Overall accidents (excluding fleet) reduced by 11% in 2012.

We have also been working with our insurers to reduce the number of minor fleet accidents. Online licence checks are performed for all company car drivers and a total of 447 employees have been invited to complete a comprehensive online suite of fleet driving training and assessment.

We continue to work with an external occupational health specialist to ensure our employees have a safe and comfortable working environment.

Community engagement

Employees engage in a wide range of activities to raise money for local and national charities. Some examples of this work are:

- We entered a Spinathon to raise money for the British Paralympics Association.
- Staff raised money for the Cystic Fibrosis Trust in the York 10k Corporate Challenge.
- Dress down days have raised £2,500 and supported a wide range of charities.
- Money was raised for Myeloma UK by teams and individuals entering the Leeds Half Marathon.
- Employees took part in Give and Gain Day 2012, the UK's only national day of employee volunteering. The project involved working with primary school children setting up a tag rugby tournament.

The company also makes a number of charitable donations each year.

Corporate social responsibility continued

When we ask our employees what they like about working for EMIS they say:

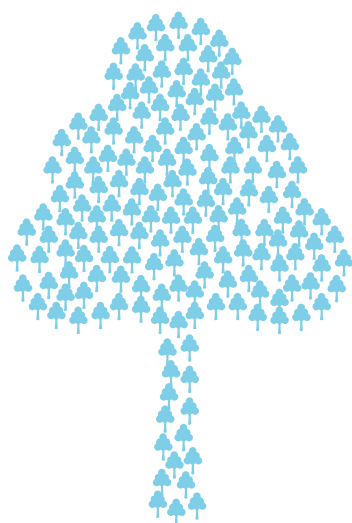


“At EMIS I have the opportunity to work with some remarkably talented people”

“One of the great things about working at EMIS has been the opportunity I have had to advance up the ladder”

“I have worked at EMIS for eight years in my current role and no two days are the same”

“I have always found my manager to be friendly and approachable with an open door policy”



Trees saved in year
by recycling paper

168

Community engagement continued

The company continues to provide work experience, attends graduate recruitment fairs and has introduced the Egton apprenticeship scheme during the year. The company commenced work with Leeds City Council, Education Business Partnership, an initiative which seeks to reduce youth unemployment. In addition the company supported the local community from providing resources to being a sponsor of a community fun day. Our work with schools has ranged from providing introductions to the world of work to counting paper hats to break a world record.

The company has continued to work with Business in the Community (“BiTc”) on a wide range of activities throughout the year.

Environment

As a responsible employer, the company is committed to the minimisation of waste and the reduction of the amount of energy consumed. Recycling, in particular of IT equipment, is encouraged wherever possible. Any disposal of IT waste is carried out in an appropriate manner in accordance with the Hazardous Waste Directive. Our IT waste disposal partners (ISO 14001 accredited) have disposed of over 37 tonnes of IT waste on our behalf. On average 146kg of cardboard is disposed of weekly and paper recycling has saved the equivalent of 168 trees. During the year we became a member of the BiTc environmental index.

The company promotes a purchasing policy that gives preference, as far as practicable, to those products and services which cause the least harm to the environment. When conducting supplier reviews, the company ensures that all suppliers adhere, wherever possible, to recommended environmental policy regulations. The company continues to review the impact on the environment of business travel and joined the West Yorkshire Travel Plan network following the move to the new Group head office, Rawdon House, during the year. We will continue to work on schemes to reduce the impact of travel on the environment. The appointment in early 2013 of a qualified Head of Property, Safety and Facilities will enable us to put further initiatives in place.

Ethical business practices

All the Group’s policies detail the standards expected throughout the Group, including free and fair competition, the prohibition of bribery, honest and fair dealing with suppliers and ensuring the welfare of workers and employment conditions within the supply chain meet or exceed internationally recognised standards. The Group has a Statement of Ethics and Whistleblowing Policy. All employees view a training session on the Bribery Act as part of their induction programme.

In this section

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This section includes our corporate governance and financial statement sections

As a responsible business, we recognise the value of effective governance

Board of Directors

Our Board has extensive experience across many sectors of the healthcare industry and their combined knowledge is integral to the success of EMIS.



L-R: Mike O'Leary, Peter Southby, Andy McKeon, Chris Spencer, Sean Riddell, Robin Taylor, Dr David Stables

Mike O'Leary (age 60) A, R, N(c)
Non-executive Chairman

Mike was appointed to the Board of EMIS in March 2011. He has twenty years of main board experience in a public company environment, including both FTSE100 and FTSE250. He has broad experience of running global operations, and a strong background in the IT industry as well as intimate association with the UK and international healthcare sectors. Mike is currently a non-executive director of Headlam Group plc and he is also Chairman of Digital Healthcare Limited (a Cambridge based supplier of software to the UK Diabetic Retinopathy Screening Programme). He was formerly Chief Executive of Marlborough Stirling plc, Chief Executive of Huon Corporation and an executive director of Misys plc. At Misys, amongst other things, Mike ran the group's US healthcare division in North Carolina which supplied software and services to over 70,000 primary care physicians in North America. He was also responsible for their UK based healthcare business which sold PAS and pathology departmental systems.

Chris Spencer (age 56)
Interim Chief Executive Officer

Chris joined EMIS in 1999 and, until 2013, was EMIS's Chief Administrative Officer including roles as Group Counsel and Company Secretary. He has been a member of EMIS's senior management strategy forum since 1999. Immediately prior to joining EMIS, he was a General Manager and Head of IT for Markgraaf Patents Limited. A qualified solicitor, Chris was also, in 1985, a founder shareholder and director of Solicitec Limited, a software house which was acquired by Lexis Nexis in 2006. He is an Associate of the Chartered Institute of Patent Agents, a member of the Law Society of England & Wales, a member of the Society for Computers & Law and a Fellow of the Chartered Management Institute.

Peter Southby (age 39)
Chief Financial Officer

Peter joined EMIS in October 2012 and has nearly 20 years of experience in finance, most recently as Finance Director of ENER-G plc and, before that, with Augean plc. At Augean, he was part of the executive team that led a number of corporate transactions including fundraising and acquisitions. Peter has built relationships and offered strategic advice across multiple industry sectors with a particular focus on support services.

Before Augean, Peter held senior financial positions at White Young Green plc and at Leeds United plc. He started his career with Arthur Andersen whilst studying at Oxford University, where he obtained a first class degree. Peter is a Fellow of the Institute of Chartered Accountants in England and Wales.

Andy McKeon (age 57) A, R(c), N
Non-executive Director

Andy joined EMIS on 4 February 2013. Andy joined the Audit Commission in September 2003 as a Managing Director with responsibility for all the Commission's work on Health. Prior to joining the Audit Commission, Andy was a Departmental Board member at the Department of Health. As Director General of Policy and Planning he had oversight of the Department's agenda for the reform and improvement of health and social care. He is also a Trustee of the Nuffield Trust, a Non-Executive Director at the National Institute of Health and Clinical Excellence and an Adjunct Professor in the Centre for Health Policy at Imperial College London. Andy is a graduate of Cambridge University.

Robin Taylor (age 61) A(c), R, N
Non-executive Director

Robin joined EMIS Group as Senior independent Non-executive Director and Chair of the Audit Committee on 1 March 2010 as part of the preparations for flotation, bringing many years' experience as a plc director. Robin is currently an independent Non-executive Director of Fusionex International plc and CMS Supatrak Limited and was formerly Chief Financial Officer of main market publicly listed companies Intec Telecom Systems plc ("Intec"), ITNET PLC and JBA Holdings plc. Prior to that, Robin held a variety of financial and general management roles in both Europe and North America. Robin is a member of the Institute of Chartered Accountants of Scotland.

Sean Riddell (age 48)
Non-executive Director*

Sean has 20 years' experience of IT within the healthcare sector, all gained with the Group. Sean joined EMIS in 1989 and he has had significant involvement in the Group's pioneering initiatives, such as enabling GP appointments to be booked via the internet or mobile phone, the secure viewing of a patient's medical records over the internet and the growth of www.patient.co.uk. Sean was initially appointed to the EMIS Board in 1999 and became Managing Director of EMIS in September 2006. He was appointed Managing Director of EMIS Group upon its incorporation in April 2008 and served as CEO from flotation until March 2013. Sean worked for Provident Financial Group as a Business Information Analyst prior to joining EMIS and has a degree in Psychology.

* With effect from 21 March 2013

Dr David Stables (age 55)
Director of Development Strategy

David advises on the Group's future product strategy and architecture and was appointed to this role in 2009. David has over 28 years' experience in healthcare IT. A co-founder of EMIS he developed an electronic medical record system to alert GPs to potential prescribing errors and to help with diagnosis. In 1987, the first EMIS system that managed patient records within a GP practice was developed and David was appointed Medical Director of EMIS in the same year. He led the EMIS software development team, with responsibility for software requirements, design, technology and clinical assurance, including the current EMIS Web system. David qualified in Medicine at Dundee University in 1981, entered general practice in 1984 at Egton Surgery and was a partner in that practice from 1987 to 1991.

A – Audit committee member
R – Remuneration committee member
N – Nomination committee member
(c) – Chair

Senior management and advisers



Neil Laycock (age 43)
Managing Director (EMIS)

Managing Director of Egton Medical Information Systems (EMIS), Neil is an experienced senior business leader with over eleven years' experience in the implementation and delivery of mobile and internet products and propositions. Neil joined EMIS as Managing Director of Patient.co.uk in January 2011 where he was integral to reviewing, revitalising and re-launching the health and wellbeing website and became MD of Egton Medical Information Systems in March 2012. Prior to this Neil was Chief Executive of broadband provider PlusNet, where he helped transform the company from regional provider to a national industry leader. He has previously held senior positions at BT, IT and ISP consultancy eggnooodles.co.uk, and founded RuckingBall.com, an online rugby coaching, resource and discussion site. Neil also represents EMIS Group on the boards of both Pharmacy2U and Healthcare Gateway Ltd.



Dr Shaun O'Hanlon (age 48)
Software Development
and Clinical Director

Shaun is EMIS Group's Software Development and Clinical Director. Shaun started with EMIS in 2006 as clinical design Director and was responsible for the clinical architecture of EMIS's flagship product EMIS Web. Shaun's advanced work on EMIS Web has pioneered the next generation of clinical support tools and mobile working within the UK primary healthcare market. Shaun trained at Cambridge and St Thomas' Hospital, becoming a GP principal in 1994 and became Medical Director of LifeGard (Health Smartcards) between 1999 and 2000. Shaun is also a Director of QResearch (EMIS joint research collaboration with University of Nottingham).



Ian Taylor (age 45)
Managing Director (RX Systems)

Ian has over twenty years of experience delivering IT solutions to community pharmacy. Ian was co-founder of RX Systems which was formed in 2004, building the business to its current position as the second largest system house operating in Community Pharmacy. Ian was retained as Managing Director following the acquisition by EMIS Group in August 2010. Prior to forming RX Systems Ian was a senior manager at Mediphase Ltd moving on to work for IMS Health Ltd to establish the first secure network dedicated to community pharmacy, NPAnet/Securnet. This service is now one of two accredited network aggregators for community pharmacy in connecting to the NHS' N3 network.

Directors

Executive

S D Riddell – Chief Executive (to 4 February 2013 and Joint Chief Executive to 21 March 2013)
C M K Spencer – Joint Chief Executive (from 4 February 2013 and Interim Chief Executive from 21 March 2013)
P A Woodrow – Finance Director (to 1 October 2012 and Director until 11 January 2013)
P J Southby – Chief Financial Officer (from 1 October 2012)
D L Stables – Director of Development Strategy

Non-executive

M K O'Leary – Chairman
R F Taylor – Senior Non-Executive Director
A J McKeon – (from 4 February 2013)
S D Riddell – (from 21 March 2013)

Company Secretary

C L Farbridge (from 4 February 2013)
C M K Spencer (to 4 February 2013)

Company number

06553923 (England and Wales)

Registered office

Rawdon House
Green Lane
Yeadon
Leeds LS19 7BY

Auditors

Baker Tilly UK Audit LLP
Chartered Accountants
2 Whitehall Quay
Leeds LS1 4HG

Nominated adviser and broker

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Registrars

Capita Registrars Limited

The Registry
34 Beckenham Road
Beckenham BR3 4TU

Financial PR

MHP Communications
60 Great Portland Street
London W1W 7RT

Legal advisers to the company

DWF LLP

Bridgewater Place
Water Lane
Leeds LS11 5DY

Pinsent Masons LLP

1 Park Row
Leeds LS1 5AB

Corporate governance

EMIS Group plc and its subsidiaries are committed to high standards of corporate governance and the Board acknowledges the importance of the principles set out in the UK Corporate Governance Code.

EMIS Group plc ("the company" or "the parent company") and its subsidiaries (together "the Group") are committed to high standards of corporate governance and the Board acknowledges the importance of the principles set out in the UK Corporate Governance Code published by the Financial

Reporting Council in June 2010 (formerly the Combined Code (2008)) ("the Code").

Although the Code is not mandatory for companies admitted to AIM, the company continues to establish a framework by adopting and implementing policies and procedures designed to comply with the

Code as far as reasonably practicable and appropriate for a company of this size and complexity. During the period the company did not fully comply with the Code (provisions B1.2, B6.2, B7.1 and E2.4). The report below sets out how the principles in the Code have been applied during the year under review.

Board composition

At the start of the year the Board of EMIS Group ("the Board") consisted of: Michael (Mike) O'Leary, Non-executive Chairman; Sean Riddell, Chief Executive; Phillip Woodrow, Finance Director; Dr David Stables, Director of Development Strategy; and Robin Taylor, Senior Non-executive Director, whom the Board considers to be independent as defined in the Code. Phillip Woodrow stepped down as Finance Director and Peter Southby was appointed as Chief Financial Officer on 1 October 2012. Phillip Woodrow

continued as an executive Director to allow for a suitable handover period and then retired from the Board on 11 January 2013.

Sean Riddell resigned as Chief Executive on 4 February 2013 and became Joint Chief Executive. On 21 March 2013 he will become a non-executive Director. He is not considered independent on appointment but the Board is of the view that his continuing involvement allows for a smooth transition and the retention of his extensive sector knowledge. Christopher (Chris) Michael Kennedy Spencer became Joint Chief Executive on 4 February 2013 and he

will become Chief Executive on an interim basis on 21 March 2013.

Andy McKeon was appointed as a non-executive Director on 4 February 2013. On appointment he met the Code requirements for independence. Appointments of non-executive Directors are for specific terms and subject to statutory provisions relating to the removal of a Director. The Board considers the current balance of skills and experience appropriate for the business but will review the balance closely following the appointment of a permanent Chief Executive.

Board effectiveness

The Board has extensive operational experience and, of the Directors, Sean Riddell and Dr David Stables have detailed knowledge of the healthcare IT sector. This has been strengthened with the appointment of Andy McKeon on 4 February 2013.

An internal assessment of the performance of the Board and its individual Directors was conducted by the Chairman during 2012. The Board's effectiveness was assessed by means of a detailed questionnaire completed by each Director.

The questionnaire covered ten areas, including Board membership, processes

for setting the strategy of the company, monitoring business performance, corporate governance and the effectiveness of the executive Directors, non-executive Directors (including the Chairman) and the Board's committees. The results were fed back to the Chairman in individual meetings and any individual concerns were addressed. The Chairman produced a report on the Board as a whole and on the other members of the Board. The Senior Non-executive Director, after review of the questionnaire findings and discussions with the Board, other than the Chairman, produced a report on the Chairman's performance. The process also gave consideration to environmental, social and governance issues as appropriate. The training needs

of all Directors were considered as part of this process. The Board will review the method of evaluation for the Board after the appointment of a permanent Chief Executive.

When considering Board membership, factors including the balance of skills, experience, knowledge of the company and its diversity, including gender, were taken into account.

New Directors receive a comprehensive pack of information, attend a tailored induction programme and meet senior managers. All Directors are encouraged to attend other relevant training courses and events.

Corporate governance continued

Board responsibilities

The Chairman is responsible for the leadership and effectiveness of the Board. During the period he led the recruitment of the Chief Financial Officer and an additional non-executive Director. The process for the appointment of new Directors is rigorous and transparent and further information is contained in the report of the nomination committee. With the Senior Non-executive Director, the Chairman led the evaluation of the Board and met with major shareholders on governance matters.

On his appointment, Mike O'Leary met the Code requirements for independence. The Chairman is responsible for setting the Board agenda and ensuring adequate time is available for discussion of each item. The Chairman promotes open debate which allows constructive challenge where appropriate.

There have been no changes to his other significant commitments during the year which have any impact on his ability to perform his duties for the company.

The roles of the Chairman and Chief Executive are separate and defined in writing. This provides a clear division of responsibilities between the running of the Board and the executive responsibility of running the business. No executive Director holds any non-executive role in a FTSE 100 company nor the chairmanship of such a company.

Once the strategic and financial objectives of the company have been set by the Board it is the role of the Chief Executive to ensure that, through the day-to-day management of the Group's business, they are achieved within defined authority limits. The Chief Executive was the main contact with the shareholders and major customers during the period under review. The Board is responsible to shareholders for the overall strategy and direction of the Group. It has a schedule of matters reserved to it including, but not limited to, decisions on strategy and risk management, approval of budgets, acquisitions and disposals, major capital expenditure, legal and insurance issues, Board structure and the appointment of advisers. In some areas responsibility is delegated to committees of the Board within clearly defined terms of reference. The terms of reference for the Board can be found at www.emis-online.com/investors. The Board undertakes a formal strategic review once a year.

During the year a strategy forum was attended by the executive Directors and senior representatives from all the key areas of the business.

Comprehensive Board packs are provided which are distributed in sufficient time to enable their review and consideration in advance of the meeting. Management accounts are distributed on a monthly basis and the risk register is reviewed at each meeting. At each meeting a key senior manager is invited to attend and present an update on their area of the business. As a key part of their role the non-executive

Directors constructively challenge the executive team and also play a key role in developing proposals on strategy. The Chairman and Senior Non-executive Director met without the executives during the year.

All Directors are subject to election by the shareholders at the next general meeting following appointment to the Board and to re-election at intervals of not more than three years. Where a Director is subject to election, the Chairman confirms that following a formal evaluation, the individual continues to be effective and demonstrate commitment to the role.

Additional information that demonstrates the skills, experience and knowledge of the Directors is shown in the biographies of the Directors on pages 16 and 17.

The Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are complied with. The Directors all have access to the Group's key advisers. There is a procedure for the Directors to take independent professional advice at the company's expense, if required in the performance of their duties, and appropriate insurance cover is in place in respect of legal action against the Directors. The company has adopted a share dealing code for Directors and senior employees.

The number of Board and committee meetings attended by each of the Directors during the year are shown on page 22.

Board committees

The Board has three formally established committees, with clearly defined written terms which are reviewed annually by the Board. Membership is as shown in the table on page 22. The terms of reference of the committees are available on the company's website. The role and work of the committees is outlined below.

Audit committee

The audit committee is chaired by Robin Taylor, who is considered to have relevant financial experience. Robin's biography is included on page 17. Other Directors and representatives of the external auditor attend by invitation.

In discharging its responsibilities as outlined in the terms of reference, as well as an annual self-review, the role of the committee has included the reviewing and monitoring of:

- the annual report and accounts and preliminary and interim results statements of the company;
- the appropriateness of accounting policies and the critical accounting estimates and judgements;
- the relevance of developments in accounting and reporting requirements;
- the effectiveness of internal controls and risk management systems;
- the audit plan for the year-end audit;
- the formal engagement terms, performance, objectivity and independence of the auditor, including the extent of non-audit work undertaken by the auditor; and
- the audit and non-audit fees of the auditor. These are set out in note 10 to the financial statements.

There have been three meetings during the year which are timed to coincide with key dates in the reporting and audit cycle. The audit committee reports to the Board on a regular basis. The audit committee meets with the external auditor, without management, to discuss matters relating to its remit and any issues relating to the audit.

To assess the effectiveness of the external audit process, the audit committee reviews, amongst other things, whether the auditor has met the agreed audit plan and considers the robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements identified.

The audit committee seeks to ensure auditor objectivity and independence in relation to non-audit work by having a policy which specifies the types of non-audit service that can be undertaken by the auditor and this is kept under review.

The audit committee reviews the Whistleblowing Policy to ensure arrangements are in place for the proportionate and independent investigation of such matters.

The committee has recommended to the Board that a resolution re-appointing Baker Tilly UK Audit LLP as external auditor be put to the shareholders at the AGM.

In line with the revised Code's recommendations on audit tendering, work will commence on putting the external audit contract out to tender in 2013. The audit committee will oversee the process and ensure all tendering firms have access to all necessary information and individuals during the tendering process.

Remuneration committee

Robin Taylor was Chairman of the remuneration committee for the period under review. On his appointment Andy McKeon became Chairman. The committee met twice during the year. The committee is

responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual Directors. Full details of the work of the committee, the Directors' remuneration and remuneration policy are set out in the Directors' remuneration report on pages 27 and 28.

Nomination committee

The nomination committee is chaired by Mike O'Leary. The committee is responsible for leading the Board appointments process and for considering the size, structure and composition of the Board and has met twice in the year.

The committee oversaw the recruitment of Peter Southby as Chief Financial Officer following the decision of Phillip Woodrow to retire from the Board and the recruitment of Andy McKeon as an additional non-executive Director (appointed 4 February 2013). The appointments were externally facilitated. Selection was made against objective criteria and included consideration of the capabilities required to add to the balance of skills on the Board. A long list of candidates was prepared which included candidates of both genders. The appointments were made following interviews, obtaining extensive references and scrutiny by the committee and the Board.

Non-executive Directors are appointed by letter of engagement, for an initial term of three years unless terminated earlier by either party giving not less than three months' written notice. They are subject to re-election in the same way as executive Directors.

As well as conducting an annual self-review, the committee has also considered succession planning for the Board and senior managers within the Group.

Corporate governance continued

Board committees continued

Internal control and risk management

The Board is responsible for the Group's system of internal controls, including reviewing the effectiveness of these controls and the processes in place for risk management. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses.

Executive Directors of each Group company have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated on a regular basis. Further information on the system of risk management is on page 24 within the Directors' report. Insurance is in place where appropriate.

The Group has extensive quality assurance processes by virtue of its internal quality assurance department which audits all non-financial processes and procedures. There are clearly defined roles, responsibilities and limits on authority in place. The Group has five current ISO registrations including ISO27001 – Information Security.

During the year the Board, independently and through the audit committee, has reviewed and is satisfied with the adequacy of the Group's internal financial controls. These include an annual budgetary process which is reviewed and approved by the Board. The actual results are monitored against budget at each Board meeting and forecasts are revisited on a rolling basis. Financial policies and approval procedures are in place which cover a number of key areas such as credit control and expenditure authorisation. A comprehensive monthly financial reporting system is in place which covers, amongst other things, operating

results, cash flow, assets and liabilities and comparisons against budgets. These are reviewed regularly and, where appropriate, amended financial policies and approval procedures are put in place.

Through all the processes above areas for enhancement are identified and action plans to ensure delivery are put in place. Delivery to plan is then monitored by the Board, the management and the audit committee.

There is currently no internal audit function as this is not considered necessary at this stage of the company's development. The Group has extensive quality assurance processes and other functions within the company that provide assurance and advice covering specialist areas. This is reviewed on an annual basis against the current factors relevant to the company's activities, markets or other areas of the external environment that may, or may be expected to increase, the risks faced by the company.

Investor relations

Meetings with analysts and institutional shareholders are held following the interim and preliminary results announcements and on an ad hoc basis. These are usually attended by the Chief Executive and Chief Financial Officer. Feedback from these meetings and regular market updates prepared by the

company's broker are presented to the Board. The Chairman and the Senior Non-executive Director are available to shareholders to discuss strategy and governance issues and any views are communicated to the Board as a whole. In accordance with AIM Rule 26, there is an investors section on the company's website, www.emis-online.com/investors, which is kept up to date.

Annual General Meeting (AGM)

At the AGM, separate resolutions will be proposed for each substantially different issue. Proxy votes are disclosed by means of an announcement on the London Stock Exchange and via the Group's website. All Directors are available to answer questions at the AGM.

Fig 1 Board and committee meetings

	Full Board	Audit committee	Nomination committee	Remuneration committee
Number of meetings in period	12	3	2	2
Attendance:				
Executive Directors				
Sean Riddell	12	—	—	—
Phillip Woodrow	12	—	—	—
Dr David Stables	11	—	—	—
Peter Southby (appointed 1 October 2012)	3	—	—	—
Non-executive Directors				
Mike O'Leary	12	3	2	2
Robin Taylor	12	3	2	2

Directors' report

The Directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2012.

Highlights

- The Directors have adopted a progressive dividend policy.
- Development work continued during the year on EMIS Web for GPs and Community Care and, more recently, for the specialist care market.
- The Group is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, race, colour, sexual orientation, disability or marital status.

The Directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2012.

This report contains certain statutory, regulatory and other information and incorporates, by reference the Chief Executive's review, the business review and the financial review included earlier in this document. The information in those sections along with this Directors' report comprises the Business Review as required by Section 417 of the Companies Act 2006.

General information and principal activities

EMIS Group plc ("the company" or "the parent company") is an AIM quoted company. The company is the parent of trading subsidiary companies (together "the Group"), the principal trading subsidiaries being Egton Medical Information Systems Limited ("EMIS") and RX Systems Limited ("RX Systems").

The company is incorporated in England and Wales and domiciled in the UK. The address of its registered office is Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY.

The principal activity of the Group is the design of computer software for healthcare professionals, mainly general practitioners, pharmacists and other clinicians, together with the hosting, supply and support of computer systems for healthcare professionals and other related users.

A review of the development of the Group's business during the year, including KPIs, the principal risks and uncertainties facing the Group and its future prospects are included in the Chief Executive's review and the financial review which should be read in conjunction with this report.

The Directors have monitored the performance of the Group by reference to certain financial and non-financial key performance indicators

(KPIs). The financial indicators include profitability, revenues, cash generation and basic and diluted earnings per share. Non-financial KPIs include the number of sites deployed, customer satisfaction and staff turnover.

Dividends

The Directors have adopted a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting (AGM) on 30 April 2013, the Board proposes paying a final dividend of 7.1p per ordinary share (2011: 6.2p) on 3 May 2013 to shareholders on the register at the close of business on 19 April 2013. This would make a total dividend of 14.2p per ordinary share for 2012 (2011: 12.4p).

Directors and their interests

The Directors of the company who served during the year ended 31 December 2012 are as follows:

- Michael (Mike) O'Leary
- Sean Riddell
- Peter Southby (appointed 1 October 2012)
- Phillip Woodrow (retired 11 January 2013)
- Dr David Stables
- Robin Taylor

Biographies of the Directors can be found on pages 16 and 17. Andrew McKeon and Chris Spencer were appointed as Directors of the company on 4 February 2013.

Directors are subject to re-election at intervals of not more than three years and details of Directors' remuneration, service agreements and interests in the share capital of the company are given in the Directors' remuneration report on pages 27 to 28.

No Director has had any material interest in any contract of significance with the company or any of its subsidiaries during the year under review.

Directors' report continued

Principal risks and uncertainties

The Board has overall responsibility for ensuring risk is appropriately managed across the Group. The Group maintains risk registers for each area of the business which are consolidated to form the Group risk register. A summary of the consolidated register is submitted to the Board at each meeting for review. The risks are rated as to their likelihood of occurring and potential impact.

Each risk is assigned to an appropriate individual and all mitigation and action plans are recorded.

The table below shows the principal risks and uncertainties identified in 2012. These risks are not intended to be an extensive analysis of all risk that may arise in the ordinary course of business or otherwise.

The principal financial risks are disclosed in note 4 to the financial statements.

Research and development

Development work continued during the year on EMIS Web for GPs and Community Care and, more recently, for the specialist care market. EMIS Web is a transformational clinical software system which enables GPs and other healthcare practitioners to provide integrated care based the patient's cradle-to-grave electronic health record. EMIS Web became the first GP system to

Risk	Impact	Mitigation
Government healthcare structural changes	Pro: significant growth opportunities. Con: could introduce future risk.	Increased engagement with NHS at both strategic and tactical levels. Detailed analysis of the impact of the move from PCTs to CCGs undertaken. NHS England and NI GP Framework discussions already commenced.
Competitor activity	Previous governmental policy of a single supplier, now in the course of being abandoned, gave competitors the opportunity, in certain areas in England, to try to erode the company's market share.	Close monitoring of competitor activity and commercial impacts. Market and product strategy clarified and enhanced. EMIS Managing Director appointed. Review and realignment of business structure. Further development of the interoperability agenda through Healthcare Gateway. Roll-out of EMIS Web. Specialist teams established to work on key areas of product development for example relating to CCMH and specialist care. Creation of EMIS Mobile.
Software development and hosting	The development, hosting and roll-out of EMIS Web and, in due course, Next Generation Pharmacy presents both opportunities and risks.	Extensive internal testing procedures and controls. Disaster recovery plans in place. Chief Technical Officer appointed. External external testing and continual monitoring to ensure customer functional expectations are met. Skilled and experienced staff recruited. Engagement between EMIS and RX Systems commercial teams. Use of outsourced development where appropriate.

Research and development continued

achieve full roll-out approval for EPSR2 from NHS Connecting for Health. eMED3, the electronic version of the fit note, was developed and rolled out and EMIS Web became the first GP and integrated care system to enable mobile working on tablet devices using EMIS Mobile. RX Systems released a new Medicines Use Review module to help pharmacists in England comply with new professional regulations and maximise their remuneration. RX Systems removed their reliance on a third party NHS Spine connector by replacing it with EMIS Web technology.

Research and development expenditure in the year amounted to £9.1m (2011: £5.6m) of which £5.3m (2011: £3.8m) was capitalised.

Creditor payment policy and practice

It is the policy and normal practice of the Group to make payments due to suppliers in accordance with agreed terms and conditions, generally within 30 days. This policy will also be applied for 2013.

Substantial interests in shares

As at 20 March 2013, the company had been notified of the following substantial interests in 3% or more in its ordinary shares:

	Number of shares	% issued capital
Sean Riddell	8,292,605	14.16
Standard Life Investments	5,837,164	9.97
Dr David Lindsay Stables ¹	4,422,724	7.55
Andrew Whitwam	3,652,075	6.24
Investec Wealth & Investment Ltd	3,480,903	5.95
Dr Peter Sowerby	3,355,082	5.73
Phillip Woodrow	2,938,751	5.01
Gary Shuckford	2,688,700	4.59
Tony Jones	2,527,555	4.31
NFU Mutual Insurance Society Ltd	2,193,520	3.74

(1) The shares indicated alongside Dr David Stables are held in trust and legally owned by the Dr P R Sowerby No. 2 Discretionary Settlement (as to 2,211,362) and by the trustees of the Dr P R Sowerby No. 4 Discretionary Settlement (as to 2,211,362). The trustees are Tony Jones, Dr David Stables and Rachel Stables.

Trade payables at 31 December 2012 represent an average of 49 days' goods and services supplied (2011: 37 days).

Share capital

As at 20 March 2013, the company had 58,550,017 ordinary shares of one penny each in issue. The shares are traded on AIM, a market operated by the London Stock Exchange plc. The rights and obligations attached to the shares are set out in the company's Articles of Association which are available on the company's website.

The company has previously established an Employee Benefit Trust (EBT) to hold shares in the company to facilitate share-based emolument payments and the Group Share Incentive Plan (SIP). During the year the EBT purchased 400,000 shares in the company at a cost of £2.4m. As at 31 December 2012 the EBT held 529,130 ordinary shares of one penny each. The EBT has waived its right to dividends.

Details of ordinary shares under option in respect of the company's share schemes are shown in note 28 to the financial statements.

The rules of the CSOP and USOS set out the consequences of a change of control. In relation to the CSOP, generally such

rights will vest and become exercisable subject to satisfaction of any performance-related conditions. As regards the USOS, generally such rights will vest and become exercisable as the Board determines in its absolute discretion.

Directors' indemnities

As permitted by the Articles of Association, the officers of the company and its subsidiaries would be indemnified in respect of proceedings which might be brought by a third party. No cover is provided for Directors in respect of any fraudulent or dishonest actions.

Employees

The Group's policy is to ensure adequate provision for the welfare, and health and safety of its employees and of other people who may be affected by its activities. The Group is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, race, colour, sexual orientation, disability or marital status.

The Group encourages the involvement of its employees and employees are made aware of significant matters through monthly updates from the Chief Executive, informal briefings, team meetings and the company's website and intranet.

During the year the EMIS Group plc SIP, in addition to the matching shares offered to employees, made an offer of free shares to all employees that had been employed by the company for one year on 31 August 2012. The offer was taken up by 78% of eligible employees. Further details are contained in the Directors' remuneration report and note 28 to the financial statements.

The Group treats applications for employment from disabled persons equally with those of other applicants having regard to their ability, experience and the requirements of the job. Where existing employees become disabled appropriate efforts are made to provide them with continuing suitable work within the Group and to provide retraining if necessary.

Directors' report continued

Charitable and political donations

The Group made charitable donations amounting to £9,000 (2011: £5,000) during the year. No political donations were made in either year.

Going concern

The company's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chief Executive's Review on pages 6 to 9. The revenue, trading results and cash flows are explained in the Financial Review on pages 10 to 11.

Note 4 to the Financial Statements sets out the company's financial risks and the management of capital risks.

The company has structured bank debt of £3.4m repayable by March 2014. However, it is profitable and expects to continue to be so. It has significant cash resources to more than cover its bank borrowings, a high and continuing level of recurring revenue and also expects to continue to have high cash conversion for the foreseeable future.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2014, the Directors believe that the company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and company financial statements.

AGM notice

The notice convening the AGM to be held on 30 April 2013, together with an explanation of the resolutions to be proposed at the meeting, is contained in a separate circular to shareholders and on the company's website at www.emis-online.com.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and company financial statements for each financial year. The Directors are required under AIM rules to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group and the company for that period.

In preparing the Group and company 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 they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the company will continue in business.

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

Auditor and statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Directors has confirmed that they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

The auditor, Baker Tilly UK Audit LLP, has indicated its willingness to be re-appointed and, in accordance with Section 489 of the Companies Act 2006, a resolution that it be re-appointed will be proposed at the AGM. A process to tender external audit will be undertaken during 2013.

Corporate governance

The company's statement on corporate governance can be found in the Corporate governance report on pages 19 to 22 of this annual report and accounts. The Corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

By order of the Board

Caroline Farbridge
Company Secretary
20 March 2013

Directors' remuneration report

This report sets out the remuneration policy of EMIS Group plc ("the company" or "the parent company") and its subsidiaries (together "the Group"). As a company quoted on AIM, the company is not required to comply with the Directors' Remuneration Regulations 2002 ("the Regulations"). The Board has, however, adopted many of the best practice provisions set out in the Regulations and these are referred to in the report below.

Remuneration committee

During the period under review, the remuneration committee was chaired by Robin Taylor. The other member of the committee was Mike O'Leary. From his appointment on 4 February 2013, Andy McKeon became the Chairman of the remuneration committee. The committee has clearly defined written terms of reference which are reviewed annually by the Board. These are available on the website, www.emis-online.com/investors. The committee may invite anyone it deems appropriate to attend and advise at meetings and the committee chairman attends the AGM to answer any shareholder questions on the activities of the committee. The Company Secretary acts as secretary of the committee.

The committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration of the Directors. This includes agreeing with the Board the framework for remuneration of the Chief Executive, all other executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider.

The overall policy of the Board is to ensure that members of the Board and executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contribution to the success of the Group, including, where appropriate, bonuses, incentive payments and the award of share options.

The committee also reviewed and approved all the awards made under the Company Share Option Plan (CSOP), the unapproved share option scheme (USOS) and the LTIP and the performance measures set against the USOS and the LTIP.

Going forward the committee will continue to ensure that the remuneration framework attracts and retains the best people and that framework is aligned to ensure the delivery of the business strategy and with the interests of the shareholders through consultation.

Senior remuneration framework

The principal elements of relevant executive remuneration packages are detailed below:

Basic salary – basic salaries are reviewed annually by the committee, taking into account changes in individual position and responsibility and individual and Group performance. Executive Directors' and senior managers' base pay is reviewed. Salaries are compared against the market level for companies of a similar size and complexity and market conditions. The company's executive Directors chose not to receive any basic salary increase in 2012.

Benefits – benefits principally include a car (or allowance) and are provided on a market-competitive basis.

Performance-related bonus – bonus arrangements are determined by the committee. There is no unconditional right to receive a bonus. The committee can also make one off bonus payments to reflect exceptional performance or special circumstances. The company's executive Directors, with the exception of one individual, did not receive any bonus payments in 2012. Going forward these will be aligned to annual financial performance and delivery of business strategy.

Pensions – there are no obligatory Group wide pension arrangements. A Director of one subsidiary company participates in a subsidiary company pension plan and contributions are made to the personal pension plans of some executive managers of that subsidiary. The Group makes contributions to the private pension schemes of the executive Directors as identified in the remuneration table below. The Group provides access to a stakeholder pension scheme which all staff are eligible to join on commencing employment. Work has commenced to ensure compliance with auto-enrolment requirements.

Share schemes

The EMIS Group plc Share Incentive Plan ("the SIP")

This is in place for UK employees employed by the Group for at least twelve months. The SIP enables employees to buy shares out of pre-tax salary each month and receive matching shares. None of the company's executive Directors participated in the SIP during the period. In November 2012, through the SIP, the company made an offer of free shares to all employees who had been employed by the Group for twelve months on 31 August 2012. The number of free shares per employee was determined with reference to length of service and salary. The company's executive Directors did not receive any free share awards.

Further details on the SIP are contained in note 28 to the financial statements.

Share options

The Directors believe it is important to motivate and reward senior key employees and executives and to do so in a proper manner that aligns their interests with those of the shareholders and the long term performance of the company. The company received approval at the 2011 AGM for an HMRC approved Company Share Option Plan (CSOP) and an unapproved share option scheme (USOS).

Directors' remuneration report continued

Share options continued

Grants under the CSOP and USOS were made on 1 October 2012 over 107,630 shares at £8.12 per share. These options were granted at the discretion of the committee to certain key executives and employees. No performance criteria were attached to the CSOP awards. The company's executive

Directors did not receive any grants under the CSOP and USOS.

Further details on the CSOP and USOS are contained in note 28 to the financial statements.

During the year an option over 400,000 ordinary shares was granted to management under the LTIP. Performance conditions apply to this award.

Shares subscribed or subscription options granted under any share incentive arrangements proposed by the Group will be limited, in total, to no more than 10% of the company's issued share capital from time to time in any ten-year period. Options under these arrangements will, where appropriate having regard to the level of options granted, be subject to specified performance criteria thereby linking remuneration to the performance of the Group.

Directors' interests

The interests of the Directors over the ordinary shares of the company are as follows:

	Number of shares at 31 December 2012	Number of shares at 1 January 2012
Sean Riddell	8,292,605	8,292,605
Dr David Stables ⁽¹⁾	4,422,724	4,422,724
Phillip Woodrow	2,938,751	3,938,751
Mike O'Leary	1,000	1,000
Robin Taylor	1,800	—

(1) The shares indicated alongside Dr David Stables are held on trust and legally owned by the trustees of the Dr P R Sowerby No. 2 Discretionary Settlement (as to 2,211,362) and by the trustees of the Dr P R Sowerby No. 4 Discretionary Settlement (as to 2,211,362). The trustees are Tony Jones, Dr David Stables and Rachel Stables.

There has been no change in the interests set out above between 31 December 2012 and 20 March 2013.

Directors' remuneration

	2012				2011 Total ⁽¹⁾ £
	Salary/ fees £	Bonus £	Benefits in kind/car allowance £	Total ⁽¹⁾ £	
Executive Directors					
Sean Riddell	179	—	9	188	177
Dr David Stables	157	—	27	184	183
Phillip Woodrow	112	—	—	112	169
Peter Southby (from 1 October 2012)	44	15	3	62	—
Non-executive Directors					
Mike O'Leary	63	—	—	63	50
Robin Taylor	35	—	—	35	35
Tony Jones (resigned 17 March 2011)	—	—	—	—	7

(1) In addition to the above, the company has made contributions to executive Directors' pension arrangements for Sean Riddell of £18,000 (2011: £15,000), for Phillip Woodrow of £78,000 (2011: £15,000), for David Stables of £19,000 (2011: £16,000) and for Peter Southby of £4,000 (2011: £nil).

Service contracts

The company entered into service agreements with the executive Directors on 24 March 2010 with the exception of Peter Southby who entered into his service agreement on 1 October 2012. In all cases these can be terminated by either party on twelve months' notice. No service contract provides for the payments of pre-determined amounts in the event of early termination. Copies of the executive Directors' service contracts will be available for inspection prior to and during the AGM.

Non-executive Directors

The Chairman and non-executive Director do not have service agreements. Mike O'Leary was appointed on 17 March 2011 by letter of engagement, for an initial term of three years unless terminated earlier by either party giving not less than three months' written notice. Robin Taylor, the Senior Non-executive Director, was appointed by letter of engagement on 1 March 2010 and his engagement is terminable by six months' notice on either side. The Chairman and non-executive Directors are not eligible for pensions, share incentives or bonus.

On behalf of the remuneration committee

Andy McKeon
Chairman
20 March 2013

Independent auditor's report

to the members of EMIS Group plc

We have audited the Group and parent company financial statements ("the financial statements") which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at <http://www.frc.org.uk/apb/scope/private.cfm>.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Andrew Allchin FCA (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds
LS1 4HG
 20 March 2013

Group statement of comprehensive income

for the year ended 31 December 2012

	Notes	Adjusted 2012 £'000	Adjustments ¹ 2012 £'000	Total 2012 £'000	Adjusted 2011 £'000	Adjustments ¹ 2011 £'000	Total 2011 £'000
Continuing operations							
Revenue	5	86,333	—	86,333	73,238	—	73,238
Costs:							
Changes in inventories		(179)	—	(179)	854	—	854
Cost of goods and services		(10,712)	—	(10,712)	(11,713)	—	(11,713)
Staff costs	11	(38,148)	5,330	(32,818)	(29,852)	3,830	(26,022)
Exceptional transaction costs		—	(435)	(435)	—	—	—
Other operating expenses ²	6	(12,125)	—	(12,125)	(10,272)	—	(10,272)
Depreciation of property, plant and equipment		(2,349)	—	(2,349)	(1,486)	—	(1,486)
Amortisation of intangible assets	16	—	(3,604)	(3,604)	—	(3,081)	(3,081)
Operating profit	7	22,820	1,291	24,111	20,769	749	21,518
Finance income	8	54	—	54	100	—	100
Finance costs	9	(130)	—	(130)	(148)	—	(148)
Share of result of associate	19	(2)	—	(2)	81	—	81
Share of result of joint venture	19	26	—	26	(116)	—	(116)
Profit before taxation		22,768	1,291	24,059	20,686	749	21,435
Income tax expense	12	(4,376)	(249)	(4,625)	(4,238)	(153)	(4,391)
Profit for the year from continuing operations		18,392	1,042	19,434	16,448	596	17,044
Discontinued operations							
Loss from discontinued operations	33	—	—	—	—	(1,894)	(1,894)
Total comprehensive income/profit for the year		18,392	1,042	19,434	16,448	(1,298)	15,150
Attributable to:							
– equity holders of the parent		17,890	1,042	18,932	16,190	(1,298)	14,892
– non-controlling interest in subsidiary company		502	—	502	258	—	258
Total comprehensive income for the year		18,392	1,042	19,434	16,448	(1,298)	15,150
Earnings per share attributable to equity holders of the parent							
				Pence			Pence
Basic earnings per share:							
– from continuing operations	13			32.55			28.71
– from discontinued operations				—			(3.24)
				32.55			25.47
Diluted earnings per share:							
– from continuing operations	13			32.50			28.71
– from discontinued operations				—			(3.24)
				32.50			25.47

1 Adjustments relate to exceptional costs, the effect of capitalisation and amortisation of development costs, and the amortisation of acquired intangible assets, together with the associated income tax impact.

2 Including contract asset depreciation of £2,589,000 (2011: £1,909,000).

The notes on pages 34 to 56 are an integral part of these consolidated financial statements.

Group and parent company balance sheets

as at 31 December 2012

Company Registration No: 06553923

	Notes	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
ASSETS					
Non-current assets					
Goodwill	15	21,951	21,951	—	—
Other intangible assets	16	30,838	28,591	—	—
Property, plant and equipment	17	22,144	14,836	—	—
Investments in subsidiaries	18	—	—	48,165	48,165
Investment in joint venture	19	—	—	—	—
Investment in associates	19	2,740	2,742	—	—
		77,673	68,120	48,165	48,165
Current assets					
Inventories	20	1,243	1,422	—	—
Trade and other receivables	21	15,188	11,971	3,616	1,495
Cash and cash equivalents		11,107	12,606	82	97
		27,538	25,999	3,698	1,592
Total assets		105,211	94,119	51,863	49,757
LIABILITIES					
Current liabilities					
Trade and other payables	23	(12,426)	(9,144)	(60)	(67)
Current tax liabilities	24	(1,919)	(1,321)	—	—
Bank loans	25	(396)	(1,184)	(396)	(1,184)
Amount owed to subsidiary company		—	—	(22,044)	(9,110)
Contingent consideration re acquisition		—	(757)	—	(757)
Deferred income		(15,857)	(16,138)	—	—
		(30,598)	(28,544)	(22,500)	(11,118)
Non-current liabilities					
Bank loans	25	(3,000)	(3,396)	(3,000)	(3,396)
Deferred tax liability	26	(7,548)	(8,087)	—	—
		(10,548)	(11,483)	(3,000)	(3,396)
Total liabilities		(41,146)	(40,027)	(25,500)	(14,514)
NET ASSETS		64,065	54,092	26,363	35,243
EQUITY					
Ordinary share capital	27	586	586	586	586
Share premium	27	24,767	24,767	24,767	24,767
Own shares held in trust	28	(2,877)	(1,061)	—	—
Retained earnings		38,076	26,789	1,010	9,890
Equity attributable to owners of the parent		60,552	51,081	26,363	35,243
Non-controlling interests		3,513	3,011	—	—
TOTAL EQUITY		64,065	54,092	26,363	35,243

The notes on pages 34 to 56 are an integral part of these consolidated financial statements.

The financial statements on pages 30 to 56 were approved by the Board of Directors and authorised for issue on 20 March 2013 and are signed on its behalf by:

Mike O'Leary
Chairman

Peter Southby
Chief Financial Officer

Group and parent company statements of changes in equity

for the year ended 31 December 2012

Group	Share capital £'000	Share premium £'000	Retained earnings £'000	Non-controlling interest £'000	Own shares held in trust £'000	Total equity £'000
Balance at 1 January 2011	586	24,767	18,796	2,753	(120)	46,782
Transactions with owners						
– share acquisitions less sales	—	—	—	—	(941)	(941)
– value of employee services	—	—	7	—	—	7
Total comprehensive income						
– profit for the year	—	—	14,892	258	—	15,150
Dividends (note 14)	—	—	(6,906)	—	—	(6,906)
Balance at 1 January 2012	586	24,767	26,789	3,011	(1,061)	54,092
Transactions with owners						
– share acquisitions less sales	—	—	—	—	(1,816)	(1,816)
– value of employee services	—	—	90	—	—	90
Total comprehensive income						
– profit for the year	—	—	18,932	502	—	19,434
Dividends (note 14)	—	—	(7,735)	—	—	(7,735)
Balance at 31 December 2012	586	24,767	38,076	3,513	(2,877)	64,065

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Own shares held in trust £'000	Total equity £'000
Balance at 1 January 2011	586	24,767	7,535	(120)	32,768
Transactions with owners					
– re-allocation to current assets	—	—	—	120	120
– value of employee services	—	—	7	—	7
Total comprehensive income					
– profit for the year attributable to equity holders of the company	—	—	9,254	—	9,254
Dividends (note 14)	—	—	(6,906)	—	(6,906)
Balance at 1 January 2012	586	24,767	9,890	—	35,243
Transactions with owners					
– value of employee services	—	—	90	—	90
Total comprehensive income					
– loss for the year attributable to equity holders of the company	—	—	(1,235)	—	(1,235)
Dividends	—	—	(7,735)	—	(7,735)
Balance at 31 December 2012	586	24,767	1,010	—	26,363

The notes on pages 34 to 56 are an integral part of these consolidated financial statements.

Group and parent company statements of cash flows

for the year ended 31 December 2012

	Notes	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash flows from operating activities					
– Continuing operations		32,732	30,913	(1,206)	(658)
– Discontinued operations		—	(766)	—	—
Cash flows from all operating activities	31	32,732	30,147	(1,206)	(658)
Finance costs		(114)	(132)	(100)	(132)
Finance income		54	100	—	—
Tax (paid)/received		(4,566)	(5,674)	180	351
Net cash generated from/(used in) operating activities		28,106	24,441	(1,126)	(439)
Cash flows from investing activities					
Purchase of property, plant and equipment		(12,491)	(6,699)	—	—
Proceeds from sale of property, plant and equipment		245	465	—	—
Internally developed software		(5,330)	(3,830)	—	—
Purchase of software		(521)	—	—	—
Increase in loan from subsidiary company		—	—	12,934	10
Dividends received		—	—	—	10,000
Contingent consideration paid for acquisition		(757)	(189)	(757)	(189)
Net cash (used in)/generated from investing activities		(18,854)	(10,253)	12,177	9,821
Cash flows from financing activities					
Increase in loan to Employee Benefits Trust		—	—	(2,131)	(1,193)
Transactions in own shares held in trust		(1,816)	(918)	—	—
Bank term loan repayments		(1,200)	(1,200)	(1,200)	(1,200)
Dividends paid		(7,735)	(6,906)	(7,735)	(6,906)
Net cash used in financing activities		(10,751)	(9,024)	(11,066)	(9,299)
Net (decrease)/increase in cash and cash equivalents		(1,499)	5,164	(15)	83
Cash and cash equivalents at beginning of year		12,606	7,442	97	14
Cash and cash equivalents at end of year	32	11,107	12,606	82	97

The notes on pages 34 to 56 form an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2012

1. General information

EMIS Group plc ("the company" or "the parent company") is the parent company of subsidiary companies (together "the Group") whose activities consist of the design, development, supply and support of computer software and systems for healthcare professionals, principally general practitioners and pharmacists, and other users.

The company is incorporated in England and Wales and domiciled in the UK. The address of its registered office is Rawdon House, Green Lane, Yeadon, Leeds, LS19 7BY.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all periods presented.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

For the Group Statement of Comprehensive Income, in addition to the results presented in accordance with IFRS, the Board has also disclosed information on what it regards as the underlying performance of the business. This presentation reflects the information which the Board uses to determine performance when making operating and strategic decisions for the business.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses. It also requires management to exercise its judgement in the application of accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the company or Group financial statements are disclosed in note 3.

2.1.1 Going concern

The company's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chief Executive's Review on pages 6 to 9. The revenue, trading results and cash flows are explained in the Financial Review on pages 10 to 11.

Note 4 to the Financial Statements sets out the company's financial risks and the management of capital risks.

The company has structured bank debt of £3.4m repayable by March 2014. However, it is profitable and expects to continue to be so. It has significant cash resources to more than cover its bank borrowings, a high and continuing level of recurring revenue and also expects to continue to have high cash conversion for the foreseeable future.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2014, the Directors believe that the company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and company financial statements.

2.2 Parent company statement of comprehensive income

As permitted by s408 Companies Act 2006, the parent company has not presented its own statement of comprehensive income. The loss of the parent company for the year was £1,235,000 (2011: profit of £9,254,000).

2.3 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

There were no relevant new standards and amendments to standards which were mandatory for the first time for the financial year beginning 1 January 2012.

(b) New standards, amendments and interpretations issued and early adopted

The following new standards and amendments and interpretations to standards have been early adopted:

In the financial year beginning 1 January 2011 the Group early adopted IFRS 11 Joint Arrangements, which differentiates "joint ventures" from "joint operations," together with amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. Consequently the Group was also required to early adopt IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities.

2. Summary of significant accounting policies continued

2.3 Changes in accounting policy and disclosure continued

(c) *New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)*

Standard/interpretation		Effective date: Periods commencing on or after
IAS 12 "Income Taxes"	Amendment: Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 1 "First-time Adoption of IFRS"	Amendment: Severe Hyperinflation and Removal of Fixed Dates	1 July 2011
IFRS 7 "Financial Instruments"	Amendment: Disclosures – Transfers of Financial Assets	1 July 2011

(d) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted*

None of the following changes would have had any material impact on the Group and the parent company financial statements had they been in force during the period under review and adopted.

Standard		Effective date: Periods commencing on or after	Endorsed
Amendment to IAS 1	Presentation of items of other comprehensive income	1 July 2012	5 June 2012
Amendment to IAS 19	Employee Benefits	1 January 2013	5 June 2012
IFRS 13	Fair Value Measurement	1 January 2013	11 December 2012
IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013	13 December 2012
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014	13 December 2012
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	11 December 2012
IAS 1	Presentation of Financial Statements	1 January 2013	Not yet endorsed
IAS 16	Property, Plant and Equipment	1 January 2013	Not yet endorsed
IAS 32	Financial Instruments: Presentation	1 January 2013	Not yet endorsed
IAS 34	Interim Reporting	1 January 2013	Not yet endorsed
IFRS 1	First-time Adoption of IFRS	1 January 2013	Not yet endorsed

2.4 Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the parent company together with those of its trading subsidiary companies (Egton Medical Information Systems Limited and RX Systems Limited), the two non-trading subsidiaries (EMIS Professional Publishing Limited and Pathway Trust Limited) and EMIS Inc., which at the year end was in the process of liquidation.

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets on an acquisition by-acquisition basis.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the separable identifiable net assets acquired and liabilities incurred or assumed at the acquisition date is recorded as purchased goodwill. Provision is made for any impairment.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Accounting policies previously applied by acquired subsidiaries are changed as necessary to comply with accounting policies adopted by the Group.

In the parent company balance sheet, investments in subsidiaries are recorded at cost and are tested for impairment when there is objective evidence of impairment. Any such impairment losses are recognised in the income statement in the period they occur.

Notes to the financial statements continued

for the year ended 31 December 2012

2. Summary of significant accounting policies continued

2.4 Basis of consolidation continued

Associates and joint ventures

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in financial and operating policy decisions.

A joint venture is a contractual arrangement whereby the Group and other parties undertake economic activities that are subject to "joint control", which means that the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are recognised in the Group financial statements using the equity method of accounting and initially carried in the balance sheet at cost. The carrying value of investments (including any goodwill) is tested for impairment when there is objective evidence of impairment and is stated net of any impairment loss. The Group's share of post-acquisition profits or losses is recognised in the Group statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in reserves. Unrealised gains and losses on Group transactions with the associates are eliminated to the extent of the Group's interest in the associate. Where necessary, adjustments are made to bring the accounting policies used into line with those used by the Group.

2.5 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating and geographical segments, has been identified as the parent company Board of Directors.

2.6 Revenue recognition

Revenue is recognised at the fair value of the right to the consideration received or receivable for goods sold and services provided in the normal course of business during the year. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount can be reliably measured and when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities, as described below:

- Revenue from licences, maintenance, support and similar services is credited to deferred income and released on a straight-line basis over the period of supply.
- Revenue from training and other similar services is recognised when the service is delivered.
- Revenue from system installations and upgrades is recognised when delivery to a customer has occurred with no significant vendor obligations remaining and where the collection of the resulting receivable is considered probable. In instances where a significant vendor obligation exists, revenue recognition is delayed until the obligation has been satisfied.
- Revenue from other hardware and consumables sales is recognised when ownership passes.

EMIS has a contract in relation to the provision of General Practitioner Systems of Choice (GPSoC), as extended to include the supply of data centre hosted services to National Health Service Connecting for Health (NHS CfH) standards. The Group recognises revenue from this contract as follows:

- Provision of infrastructure and hardware – in line with the anticipated life of the related assets as capitalised within property, plant and equipment.
- Other services are recognised when delivered or over the period of supply as appropriate.

Invoices raised in advance of the provision of services to customers are recorded in the balance sheet as deferred income and included within current liabilities.

Where Group recognition criteria have been met but no invoice to the customer has been raised at the period end, revenue is recognised and included as accrued income within trade and other receivables on the balance sheet.

2.7 Operating profit

Operating profit is defined as the profit before finance income, finance costs, share of results of associate and joint venture and income tax expense.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition of a subsidiary compared with the fair value at the date of acquisition of the identifiable net assets acquired. Goodwill does not have a finite life and is not subject to amortisation. It is reviewed annually for impairment and whenever there is an indication that there may be impairment.

2. Summary of significant accounting policies continued

2.8 Intangible assets continued

(a) Goodwill continued

Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination and which represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(b) Computer software

The costs of maintaining computer software are recognised as expenses of the period in which they are incurred.

Development costs that are directly attributable to the design, development and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets from the point in time that:

- it becomes probable a project will be a success;
- the project or product is technically and commercially feasible;
- the development costs can be measured reliably; and
- sufficient resources are available to complete the development and use the asset.

Development costs that have previously been recognised as an expense are not recognised as an asset in a subsequent period.

Software acquired by the Group on the purchase of subsidiary undertakings or otherwise purchased externally meeting the above criteria is included in intangible assets at fair value at the acquisition date. Fair value is assessed under the multi-period excess earnings method, the income (relief from royalty) basis or cost for external purchases. The capitalised costs of internally developed software consist only of the directly attributable development employee costs.

All capitalised software has a finite useful life and is carried at the amount initially recognised less accumulated amortisation and any accumulated impairment losses.

An initial assessment of the useful economic life for each unique software product is made based on the anticipated conditions in the market from which economic benefits are expected to be derived. The criteria for choosing useful economic lives include, amongst other factors:

- future anticipated revenues;
- customer requirements;
- NHS funding arrangements;
- the political environment; and
- competitor activity.

The useful economic life for each product is then monitored at regular intervals and if required is amended to reflect any change.

Software acquired on business combinations and other software purchased externally is amortised using the straight-line method over an estimated useful life of between four and six years.

Expenditure on internally developed software principally relates to EMIS Web for both GP and, more recently, also for integrated care. EMIS Web is a "transformational" clinical software product, the costs of which have been capitalised to the extent of the criteria set out above. As the Group continues with the roll-out programme and enabling product enhancement programme, amortisation of EMIS Web software for GPs will follow that programme so as to reflect the availability of the software and the pattern of the future economic benefits that are expected to flow from its use, using an amortisation period of eight years from installation.

Development costs for other internally developed software are driven by the need to provide tailored versions of the Group's software for different local markets. These costs are capitalised to the extent they meet the criteria above and are amortised over a period of between four and eight years from installation.

(c) Customer relationships

Customer relationships acquired with subsidiary companies are recognised at fair value at the acquisition date using the multi-period excess earnings method. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of between ten and 15 years. Customer relationship assets are impaired if the relationship with the customer ceases.

Notes to the financial statements continued

for the year ended 31 December 2012

2. Summary of significant accounting policies continued

2.9 Property, plant and equipment

Property, plant and equipment acquired with subsidiary companies are recognised at fair value at the date of acquisition. Other additions are recognised at purchase cost. Depreciation is provided on all property, plant and equipment other than freehold land to write assets down to their estimated residual value over their estimated useful lives at the following annual rates:

Freehold property	2% straight-line
Leasehold property	over life of lease (between 20% and 33% straight-line)
Computer equipment	33% straight-line
Fixtures, fittings and equipment	25% reducing balance
Motor vehicles	20% straight-line

2.10 Impairment of property, plant and equipment and intangible assets excluding goodwill

At each year end, the Group reviews the carrying amounts 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 (if any).

An impairment loss is recognised whenever the carrying amount of an asset, or its cash-generating unit, exceeds the asset's recoverable amount. Impairment losses are recognised as an expense.

The recoverable amount of assets is the greater 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.11 Taxation

The taxation expense charged in the Group statement of comprehensive income represents the sum of the current tax expense and the deferred tax expense.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the Group statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group liability for current tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Group statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax relates to income tax levied by the same tax authorities on either:

- the same taxable entity or;
- different taxable entities which intend to settle current tax assets and liabilities on a net basis or to realise and settle them simultaneously in each future period when the significant deferred tax assets and liabilities are expected to be realised or settled.

2.12 Leasing

Operating lease annual rentals are charged in the Group statement of comprehensive income on a straight-line basis over the term of each lease.

2. Summary of significant accounting policies continued

2.13 Share Incentive Plan

The fair value of free shares allocated to members of the share incentive plan (see note 29) is accounted for within staff costs.

2.14 Retirement benefit costs

The costs charged in the financial statements represent contributions payable by the Group during the period into publicly or privately administered defined contribution pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2.15 Functional and presentational currency

The financial statements are presented in sterling, which is also the functional currency of the parent company.

2.16 Foreign currencies

Assets and liabilities denominated in currencies other than the functional currency of the parent company are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the Group statement of comprehensive income.

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

2.18 Own shares held in trust

The shares in the company held by The EMIS Group plc Employee Benefits Trust are treated as treasury shares, stated at weighted average cost and presented as a reduction of shareholders' equity (see note 28). Gains and losses on transactions in the company's own shares are taken directly to equity.

2.19 Financial Instruments

Financial assets and financial liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

Trade receivables

Trade receivables are amounts due from customers for goods sold and services provided in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate.

Investments

Investments in subsidiaries, associates and joint ventures are recorded at cost in the company balance sheet. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the income statement in the period they occur.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and at bank. There are no bank deposits with maturity dates of more than three months.

(b) Financial liabilities

The Group's financial liabilities, all of which are held for trading, are classed as level one financial instruments in the fair value hierarchy.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements continued

for the year ended 31 December 2012

2. Summary of significant accounting policies continued

2.19 Financial Instruments continued

(b) Financial liabilities continued

Bank and other borrowings

Bank and other loans are recorded initially at their fair value, net of issue costs. Issue costs are charged to the Group statement of comprehensive income over the term of the instrument at a constant rate on the carrying amount. Such instruments are subsequently carried at their amortised cost.

Equity instruments

Equity instruments issued by the company are recorded at fair value on initial recognition net of transaction costs.

2.20 Dividends

Interim dividends are recognised as distributions in the accounts when paid. Final dividends are recognised in the accounts in the year in which they are approved by shareholders.

3. Critical accounting estimates and judgements

Accounting estimates and judgements are made and continually evaluated based on past experience together with expectations relating to future events that are believed to be reasonable at the present time. Due to the inherent uncertainty involved in making these estimates and judgements, actual outcomes could be different. The critical estimate, assumption and judgement made in arriving at the amounts recognised in the Group financial statements that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year is as follows:

Development costs

As set out in the accounting policy note 2.8(b), software development costs are capitalised and are amortised over their estimated useful lives in accordance with the policies set out in that note. Useful lives are based on management estimates of the period over which assets are expected generate revenue. These estimates are reviewed periodically for continued appropriateness. Changes to estimates can result in variations in carrying values and amounts charged to the Group statement of comprehensive income from period to period.

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to financial risks including credit risk, liquidity risk, interest rate risk, and price risk. The Group manages these risks through an effective risk management programme that seeks to minimise potential adverse effects on the Group's performance. Following the closure of the Canadian operation in 2011, the Group does not have any significant foreign currency risk.

Exposure to financial risks is monitored by the finance/administration department under policies approved by the Board. An assessment of the risks is provided to the Board at regular intervals and is discussed to ensure that the risk mitigation procedures are compliant with Group policy and that any new risks are appropriately managed.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, which are stated net of allowances for any estimated irrecoverable amounts. However, this risk is mitigated in both EMIS and RX, with payment being received in advance for a significant proportion of goods and services provided.

There is some concentration of risk, as EMIS has significant dealings with Connecting for Health (an agency of The National Health Service) and with Primary Care Trusts. However, EMIS has longstanding relationships with its large number of end users and in addition to the normal credit management processes, the nature of these relationships assist management in controlling its credit risk.

Credit risk also arises on cash and cash equivalents placed with the Group's two main banks, both of which are within the UK. The Group monitors the financial standing of any institution with which it deposits cash.

Liquidity risk

Management control and monitor the Group's cash flow on a regular basis, including forecasting future cash flows, to ensure that it has sufficient financial resources to meet the obligations of the Group as they fall due.

A detailed analysis of Group debt together with the maturity profile is disclosed in note 25.

Interest rate risk

The company has exposure to interest rate risk in relation to its bank debt amounting to £3.4 million. Details of the interest rates and repayment terms are disclosed in note 25. The Group carries sufficient cash reserves to enable it to pay down the bank debt in the event of any significant adverse movement in interest rates.

4. Financial risk management continued

4.1 Financial risk factors continued

Interest rate risk continued

The Group's current assets include cash and cash equivalents at the year end amounting to £11.1 million, on which interest received is subject to fluctuations in market rates.

Price risk

As a significant proportion of the Group's revenues are secured under framework agreements or other long-term contracts, it has only limited exposure to price risk. However, significant changes are being made within the NHS and during 2013 there will be price renegotiations on a number of the Group's more significant contracts. The Group is fully engaged with the process in order to secure the best possible outcome for the Group, the NHS and patients.

4.2 Capital risk management

The Group defines the capital that it manages as the Group's total equity, including non-controlling interests.

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to investors and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital;
- to provide an adequate return to shareholders based on the level of risk undertaken;
- to have financial resources available to allow the Group to invest in areas that may deliver future benefits and returns to shareholders and other stakeholders; and
- to maintain financial resources sufficient to mitigate against risks and unforeseen events.

The Group is profitable and has high cash conversion. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

5. Operating segments

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

The Group has two principal operating segments, both involved with the supply and support of software and related services, namely (a) the EMIS business principally relating to GP practices and integrated care and (b) the RX Systems business, relating to community pharmacies.

Each operating segment is assessed by the Board based on a measure of adjusted operating profit. This measurement basis has been updated during the year and excludes exceptional costs, the effect of capitalisation and amortisation of development costs, and the amortisation of acquired intangible assets as the Board considers this to provide the best measure of underlying performance. In the prior year, the effect of capitalised development costs was not excluded but the comparative figures have now been restated for consistency. Group operating expenses, finance income and costs, cash and cash equivalents and bank and other loans are not allocated to segments, as Group and financing activities are not segment-specific.

Notes to the financial statements continued

for the year ended 31 December 2012

5. Operating segments continued

Segmental reporting

	2012			2011		
	EMIS £'000	RX £'000	Total £'000	EMIS £'000	RX £'000	Total £'000
Continuing operations						
Revenue	69,757	16,576	86,333	59,633	13,605	73,238
Adjusted segmental operating profit as reported internally	19,901	3,831	23,732	19,148	2,402	21,550
Development costs capitalised	5,330	—	5,330	3,830	—	3,830
Amortisation						
– of development costs	(621)	—	(621)	(155)	—	(155)
– of other intangible assets	(2,132)	(851)	(2,983)	(2,075)	(851)	(2,926)
Segmental operating profit	22,478	2,980	25,458	20,748	1,551	22,299
Group operating expenses			(912)			(781)
Exceptional transaction costs			(435)			—
Total operating profit			24,111			21,518
Finance costs net of income			(76)			(48)
Share of result of associate			(2)			81
Share of result of joint venture			26			(116)
Profit before taxation			24,059			21,435

Revenue excludes intra-group transactions on normal commercial terms from EMIS to RX Systems totalling £2,179,000 (2011: £1,454,000).

Revenue within the EMIS segment of approximately £60,201,000 (2011: £53,403,000) is derived from the NHS and related bodies.

Revenue within the EMIS segment of £2,948,000 (2011: £1,482,000) is derived from customers outside the United Kingdom.

Exceptional transaction costs relate to professional fees incurred investigating the acquisition of complementary businesses.

	2012			2011		
	EMIS £'000	RX £'000	Total £'000	EMIS £'000	RX £'000	Total £'000
Segmental assets as reported internally	35,624	2,917	38,541	25,250	2,952	28,202
Other segmental assets:						
– Goodwill and intangible assets	41,836	10,953	52,789	38,788	11,754	50,542
	77,460	13,870	91,330	64,038	14,706	78,744
Non segmental assets:						
– Group			34			26
– Investments in associate and joint venture			2,740			2,742
– Cash and cash equivalents			11,107			12,606
– Discontinued operation			—			1
Total assets as reported			105,211			94,119
Segmental liabilities as reported internally	(24,270)	(5,870)	(30,140)	(20,233)	(6,172)	(26,405)
Other segmental liabilities	(6,465)	(1,083)	(7,548)	(6,645)	(1,470)	(8,115)
	(30,735)	(6,953)	(37,688)	(26,878)	(7,642)	(34,520)
Non segmental liabilities:						
– Group			(62)			(108)
– Bank loans			(3,396)			(4,580)
– Contingent consideration			—			(757)
– Discontinued operation			—			(62)
Total liabilities as reported			(41,146)			(40,027)

Capital expenditure on property, plant and equipment, reported in non-current assets, amounted to £12,221,000 (2011: £6,540,000) for EMIS and £270,000 (2011: £156,000) for RX. Depreciation of property, plant and equipment amounted to £4,790,000 (2011: £3,313,000) for EMIS and £148,000 (2011: £82,000) for RX.

6. Other operating expenses by function

	2012 £'000	2011 £'000
Administration costs	5,414	4,934
Establishment costs	1,550	1,273
Motor, travel and selling costs	2,572	2,156
Contract asset depreciation	2,589	1,909
Total other operating expenses	12,125	10,272

7. Operating profit

	2012 £'000	2011 £'000
The following have been included in arriving at operating profit:		
Research and development expenditure	9,100	5,629
Development expenditure capitalised	(5,330)	(3,830)
Depreciation of property, plant and equipment		
– depreciation of owned assets	4,938	3,395
Amortisation of intangible assets		
– purchased computer software	56	—
– internally developed computer software	621	155
– arising on business combinations	2,927	2,926
Operating lease rentals		
– land and buildings	445	444
– plant and equipment	75	88

The total research and development cost shown above of £9,100,000 (2011: £5,629,000), consists of the direct salary and national insurance costs of relevant UK staff and the costs of Australia-based staff. Software development costs amounting to £5,330,000 (2011: £3,830,000) have been capitalised in accordance with the criteria set out in IAS 38.

8. Finance income

	2012 £'000	2011 £'000
Bank interest	45	57
Other interest	9	2
Profit on sale of own shares	—	23
Exchange profit	—	18
	54	100

9. Finance costs

	2012 £'000	2011 £'000
Bank loan interest	100	132
Exchange loss	14	—
Amortisation of bank loan issue costs	16	16
	130	148

Notes to the financial statements continued

for the year ended 31 December 2012

10. Auditor's remuneration

	2012 £'000	2011 £'000
Baker Tilly UK Audit LLP		
Audit Services		
– Statutory audit of parent and consolidated accounts	18	17
– audit of accounts of subsidiary companies	48	47
Other services		
– review of interim results	13	12
Baker Tilly Tax and Accounting Limited		
Taxation services		
– compliance services	17	15
– advisory services	15	5
Baker Tilly Associated Entities		
Share scheme administration	19	15
	130	111

11. Employees

	2012 Number	2011 Number
The average monthly number of persons (including Directors) employed by the Group during the year was as follows:		
– management and administration	99	86
– software support and development	581	421
– sales, maintenance and training	388	325
– others	48	66
	1,116	898
	2012 £'000	2011 £'000
Staff costs for above persons:		
– wages and salaries	33,870	26,624
– social security costs	3,465	2,786
– pension costs – defined contribution plans	398	229
– share incentive plan (note 28)	325	206
– share option expense (note 28)	90	7
	38,148	29,852
Dealt with as follows:		
– charged in Group statement of comprehensive income	32,818	26,022
– capitalised development costs	5,330	3,830
	38,148	29,852

12. Income tax expense

	2012 £'000	2011 £'000
Income tax:		
– current tax charge	5,164	5,153
– prior year tax charge	—	(730)
Total current tax	5,164	4,423
Deferred taxation:		
– current period	(539)	(32)
Total deferred tax	(539)	(32)
Total tax charge in Group statement of comprehensive income	4,625	4,391
Factors affecting the tax charge for the year:		
Profit before tax	24,059	21,435
Profit before taxation multiplied by the average domestic income tax rate in the UK of 24.5% (2011: 26.5%)	5,894	5,680
Tax effects of:		
– expenses not deductible for tax purposes	133	28
– research and development enhanced relief	(434)	(278)
– joint venture/associate reported net of tax	(6)	9
– adjustment for prior periods	—	(730)
– deferred tax rate change	(962)	(318)
Tax charge for the year	4,625	4,391

13. Earnings per share (“EPS”)

The calculation of basic and diluted earnings per share is based on the following earnings and numbers of shares:

	2012 £'000	2011 £'000
Earnings		
Basic earnings attributable to equity holders	18,932	14,892
Discontinued operations and exceptional items	435	1,894
Development costs capitalised	(5,330)	(3,830)
Amortisation of intangible assets	3,604	3,081
Tax effect of above items	249	153
Adjusted earnings attributable to equity holders	17,890	16,190
Weighted average number of ordinary shares (millions)	2012 Number	2011 Number
Total shares in issue	58.55	58.55
Held as own shares in Treasury by Employee Benefit Trust	(0.38)	(0.08)
For basic EPS calculations	58.17	58.47
Effect of potentially dilutive share options	0.08	—
For diluted EPS calculations	58.25	58.47

Notes to the financial statements continued

for the year ended 31 December 2012

13. Earnings per share ("EPS") continued

Earnings per share	2012 Pence	2011 Pence
Basic	32.55	25.47
Adjusted	30.76	27.69
Basic diluted	32.50	25.47
Adjusted diluted	30.71	27.69

14. Dividends

	2012 £'000	2011 £'000
Final dividend for the year to 31 December 2010 of 5.6p	—	3,276
Interim dividend for the year to 31 December 2011 of 6.2p	—	3,630
Final dividend for the year to 31 December 2011 of 6.2p	3,618	—
Interim dividend for the year to 31 December 2012 of 7.1p	4,117	—
	7,735	6,906

A final dividend for the year to 31 December 2012 of 7.1p amounting to approximately £4,120,000 will be proposed at the Annual General Meeting on 30 April 2013. If approved, this dividend will be paid on 3 May 2013 to shareholders on the register on 19 April 2013. The dividend is not accounted for as a liability in these accounts and will be accounted for as an appropriation of revenue reserves in the year to 31 December 2013.

15. Goodwill

Group	£'000
Cost and net book value	
As at 1 January 2011, 31 December 2011 and 31 December 2012	21,951
Allocated to the Group's cash-generating units (CGUs) as follows:	
– EMIS	15,853
– RX Systems	6,098
	21,951

Impairment tests for goodwill

Each allocation is tested annually for impairment and, to confirm that no impairment of the goodwill is necessary, management have compared the carrying value to the value in use.

The value in use for each allocation has been calculated using internal Group budgets for the three years ending 31 December 2015 to forecast pre-tax cash flows from each CGU. These cash flows have then been extrapolated for a further two years assuming average annual growth rates of 3.5% for EMIS (2011: 3.5%) and 4.0% for RX Systems (2011: 4.0%), until 31 December 2017 and then 1% for both EMIS and RX Systems in perpetuity. The pre-tax cash flows for the five year period have been discounted back to 31 December 2012 using weighted average costs of capital of 9% in relation to EMIS (2011: 9%) and 13% for RX Systems (2011: 13%). The exercise has confirmed that there has been no impairment. Sensitivity analysis has been performed on the assumptions and this continued to indicate that no impairment was required.

16. Other intangible assets

Group	Computer software purchased externally £'000	Computer software developed internally £'000	Computer software acquired on business combinations £'000	Customer relationships £'000	Total £'000
Cost					
As at 1 January 2011	—	8,321	8,797	18,864	35,982
Additions	—	3,830	—	—	3,830
Discontinued operation	—	(1,442)	—	—	(1,442)
As at 31 December 2011	—	10,709	8,797	18,864	38,370
Additions	521	5,330	—	—	5,851
As at 31 December 2012	521	16,039	8,797	18,864	44,221
Accumulated amortisation and impairment					
As at 1 January 2011	—	3	3,644	3,051	6,698
Charged in year	—	155	1,558	1,368	3,081
As at 31 December 2011	—	158	5,202	4,419	9,779
Charged in year	56	621	1,558	1,369	3,604
As at 31 December 2012	56	779	6,760	5,788	13,383
Net book value					
At 31 December 2012	465	15,260	2,037	13,076	30,838
At 31 December 2011	—	10,551	3,595	14,445	28,591
At 1 January 2011	—	8,318	5,153	15,813	29,284

The accounting policy for intangible assets is set out in note 2.8. The remaining average amortisation period for software developed internally is approximately six years (2011: seven years). Software acquired has remaining amortisation periods of one year (2011: two years) and two years (2011: three years) for EMIS and RX Systems respectively. Customer relationships have a remaining amortisation period of eleven years (2011: twelve years) for EMIS and eight years (2011: nine years) for RX Systems.

Notes to the financial statements continued

for the year ended 31 December 2012

17. Property, plant and equipment

Group	Land and buildings £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 January 2011	3,579	9,844	1,363	3,005	17,791
Re-allocation	54	—	(54)	—	—
Additions	1,820	2,570	347	1,962	6,699
Disposals	—	(460)	(64)	(1,063)	(1,587)
At 31 December 2011	5,453	11,954	1,592	3,904	22,903
Additions	1,126	8,661	610	2,094	12,491
Disposals	—	(4)	—	(749)	(753)
At 31 December 2012	6,579	20,611	2,202	5,249	34,641
Accumulated depreciation and impairment					
At 1 January 2011	222	3,966	493	1,052	5,733
Re-allocation	16	—	(16)	—	—
Charged in year	69	2,529	251	607	3,456
On disposals	—	(325)	(61)	(736)	(1,122)
At 31 December 2011	307	6,170	667	923	8,067
Charged in year	205	3,526	217	990	4,938
On disposals	—	(1)	—	(507)	(508)
At 31 December 2012	512	9,695	884	1,406	12,497
Net book value					
At 31 December 2012	6,067	10,916	1,318	3,843	22,144
At 31 December 2011	5,146	5,784	925	2,981	14,836
At 1 January 2011	3,357	5,878	870	1,953	12,058

Included within property, plant and equipment are assets ("contract assets") allocated to the data centre hosting services contract (see note 2.6 – Revenue recognition for further details) with an original cost of £12,693,000 (2011: £8,074,000) and accumulated depreciation of £6,669,000 (2011: £4,080,000), including depreciation of £2,589,000 (2011: £1,909,000) charged in other operating expenses in the year. The net book value of these assets amounts to £6,024,000 (2011: £3,994,000).

Included within property, plant and equipment are assets relating to improvement to leasehold properties with an original cost of £393,000 (2011: £390,000) and accumulated depreciation of £242,000 (2011: £136,000). The net book value of these assets amounts to £151,000 (2011: £254,000).

The depreciation charged in 2011 includes £61,000 which is included in the loss from discontinued activities.

18. Investments in subsidiaries

Company	£'000
Cost and net book value	
As at 1 January 2011, 31 December 2011 and 31 December 2012	48,165
The company's investments in its subsidiaries (and those investments of EMIS) are recorded at the fair value of the consideration paid.	

18. Investments in subsidiaries continued

Details of the subsidiary companies are as follows:

Name and nature of business	Country of registration and operation	Class of share	% of voting power held
Egton Medical Information Systems Limited ("EMIS") – medical IT systems	England	£1 ordinary	100
RX Systems Limited – pharmacy IT systems	England	£1 ordinary	78.9
Subsidiary companies of EMIS:			
EMIS Inc. (in liquidation)	Canada	\$1 Class A	100
EMIS Professional Publishing Limited – dormant	England	£1 ordinary	100
Pathway Trust Limited – dormant	England	£1 ordinary	100

All subsidiary undertakings are included in the consolidated financial statements of the Group.

19. Investment in associates and joint venture

Group	2012 £'000	2011 £'000
Associates		
As at 1 January	2,742	2,661
Share of result for year	(2)	81
As at 31 December	2,740	2,742

The Group has two associates, Pharmacy 2U Limited ("P2U") and Multepos Computer Systems Limited ("Multepos"). Both are unlisted companies incorporated in the UK.

The principal activity of P2U is the operation of an internet mail order pharmacy and the Group has a 20% ownership and voting interest.

The interest in Multepos is held through RX Systems. Multepos offers a pharmacy electronic point of sale system, which is enabling RX to expand the services it provides to its user base. The trading results and the net assets of Multepos are not material and have not been recognised in the Group accounts. At 31 December 2012 the Group had a 20% ownership and 25% voting interest but in January 2013 it acquired the remaining shares in the business (see note 36).

Aggregate amounts relating to P2U are as follows:

	2012 £'000	2011 £'000
Assets	6,927	6,572
Liabilities	(3,638)	(3,438)
Revenues	17,717	17,069
(Loss)/profit before taxation	(12)	554
(Loss)/profit after taxation	(10)	405

Notes to the financial statements continued

for the year ended 31 December 2012

19. Investment in associates and joint venture continued

Joint venture

Healthcare Gateway Limited ("HGL") is a joint venture formed during 2010 with In Practice Systems Limited. Its purpose is to enable the sharing of patient data via a medical interoperability gateway.

The Group has a 50% interest in HGL, acquired on formation for £1. The venture has to date been funded by loans from each joint venture party and at 31 December 2012 the Group is owed £291,000 (2011: £274,000).

Aggregate amounts relating to HGL are as follows:

	2012 £'000	2011 £'000
Assets	336	140
Liabilities	(609)	(464)
Revenues	154	9
Profit/(loss) before taxation	71	(316)
Profit/(loss) after taxation	52	(232)
Share of profit/(loss) for year	26	(116)

The HGL liabilities consist principally of loans owing to the joint venture partners. In these consolidated accounts the Group's share of the losses to date has been set off in the consolidated balance sheet against the amount owing to the Group.

20. Inventories

Group	2012 £'000	2011 £'000
Finished goods	1,243	1,422

21. Trade and other receivables

	Group		Company	
Current	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade and other receivables	10,415	9,676	—	—
Prepayments and accrued income	4,773	2,295	2	2
Loan to Employee Benefits Trust	—	—	3,444	1,313
Income tax	—	—	170	180
	15,188	11,971	3,616	1,495

22. Credit quality of financial assets

The Group's financial assets, all of which are held for trading, are classed as level one financial instruments in the fair value hierarchy.

The amounts of the maximum exposure to credit risk at the reporting date are as follows:

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade and other receivables	10,415	9,676	—	—
Cash at bank	11,107	12,606	82	97
	21,522	22,282	82	97

No collateral security is held.

22. Credit quality of financial assets continued

Trade and other receivables

Reporting date balances fall within the following categories:

	Group	
	2012 £'000	2011 £'000
EMIS:		
UK governmental health bodies:		
– Agencies (e.g. Connecting for Health)	5,177	2,644
– Others (e.g. Primary Care Trusts)	1,560	1,794
RX Systems:		
– Group and independent high street pharmacies	1,746	1,627
– Distributors	591	1,071
Other third party receivables across the Group	1,341	2,540
	10,415	9,676

Trade and other receivables are mainly due one month following the date of the invoice. At the reporting date the aged analysis of trade and other receivables is as follows:

	2012 £'000	2011 £'000
– December	7,524	7,237
– November	1,027	1,586
– October and earlier	1,864	853
	10,415	9,676

Other than trivial amounts, no provision for impairment of trade receivables has been required.

Cash at bank

The Moody's long-term credit ratings and balances are as follows:

	Group	
	2012 £'000	2011 £'000
A2	10,555	5,135
A3	552	—
Aa3	—	7,466
Other balances	—	5
	11,107	12,606

23. Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current				
Trade payables	6,530	3,981	—	—
Accrued expenses	2,935	2,343	60	67
Other tax and social security	2,961	2,820	—	—
	12,426	9,144	60	67

In 2011 Other tax and social security was disclosed within Current tax liabilities (note 24). In the current year the balance has been reclassified within Trade and other payables and the comparative figure restated accordingly.

Notes to the financial statements continued

for the year ended 31 December 2012

24. Current tax liabilities

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Income tax	1,919	1,321	—	—

25. Borrowings

Company and Group	2012 £'000	2011 £'000
Non-current		
Bank loans – secured	3,000	3,396
Current		
Bank loans – secured	396	1,184
	3,396	4,580

Bank loans consist of a term loan to March 2013 amounting to £400,000 at 31 December 2012, repayable by equal monthly instalments of £100,000, and a mortgage loan of £3,000,000 repayable on 31 March 2014. The term loan bears interest at 2% over Libor and the mortgage loan is at 1.75% over Libor.

The bank loans are secured by mortgage debentures providing fixed and floating charges over the Group's assets and undertaking.

The non-current borrowings carried at £3,000,000 (2011: £3,396,000) as shown above are estimated to have a fair value of £3,009,000 (2011: £3,372,000). The fair values are based on cash flows discounted using a rate based on the borrowing rate of 2.08% (2011: 2.91%).

The fair value of current borrowings approximates to their carrying amount, as the impact of discounting is not significant.

Analysis of debt maturity	2012 £'000	2011 £'000
Amounts payable:		
In one year or less	400	1,200
In more than one year but not more than two years	3,000	400
In more than two years but not more than five years	—	3,000
Debt issue costs to be amortised over outstanding term	(4)	(20)
	3,396	4,580

26. Deferred tax

	Plant and equipment £'000	Intangible assets £'000	Property £'000	Total £'000
At 1 January 2011	137	(7,906)	(725)	(8,494)
Charge to income	(104)	—	—	(104)
Impairment – discontinued operation	—	375	—	375
Intangibles amortisation	—	814	—	814
Development costs	—	(1,010)	—	(1,010)
Depreciation on building	—	—	16	16
Effect of rate change	(5)	293	28	316
At 31 December 2011	28	(7,434)	(681)	(8,087)
Charge to income	—	—	—	—
Intangibles amortisation	—	869	—	869
Development costs	—	(1,306)	—	(1,306)
Depreciation on building	—	—	14	14
Effect of rate change	—	885	77	962
At 31 December 2012	28	(6,986)	(590)	(7,548)

26. Deferred tax continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2012 £'000	2011 £'000
Deferred tax liabilities	(7,576)	(8,115)
Deferred tax assets	28	28
	(7,548)	(8,087)

27. Share capital and premium

	Ordinary shares of 1p each		Share Premium	Total
	Number	£'000	£'000	£'000
At 1 January 2011, 31 December 2011 and 31 December 2012	58,550,017	586	24,767	25,353

All issued shares are fully paid. There were no movements in the share capital of the company during either year. At 31 December 2012 the EMIS Group plc Employee Benefit Trust held 529,130 shares in the company (2011: 207,345 shares).

28. Share based payments

At 31 December 2012 outstanding awards to subscribe for ordinary shares of 1p each in the company, granted in accordance with the rules of the EMIS share option schemes and the EMIS LTIP, were as follows:

Exercise or vesting date	Exercise price	At 1 January 2012	Lapsed	Granted	At 31 December 2012
2011 Share Option Plan					
October 2014 – October 2016	528p	66,225	(2,370)	—	63,855
October 2015 – October 2017	812p	—	—	42,130	42,130
		66,225	(2,370)	42,130	105,985
Unapproved Option Scheme					
October 2014 – October 2016	528p	12,298	—	—	12,298
June 2015 – July 2016	812p	—	—	65,500	65,500
		12,298	—	65,500	77,798
EMIS LTIP					
July 2015 – July 2017	547p	—	—	400,000	400,000
		78,523	(2,370)	507,630	583,783

The parent company operates share option schemes, (the HMRC approved EMIS Group plc 2011 Share Option Plan and the EMIS Group plc Unapproved Option Scheme) and an LTIP scheme. Tranches of options have been granted at market value to senior members of management. Performance conditions apply to the 2012 awards under the Unapproved Option Scheme and the EMIS LTIP only.

Options are conditional on the employee completing three years' service, other than in certain limited circumstances. The Group has no legal or constructive obligation to repurchase or settle any of the options for cash.

Notes to the financial statements continued

for the year ended 31 December 2012

28. Share based payments continued

The fair value of options has been calculated using the Black Scholes model for awards without performance conditions and the Monte Carlo model for those awards with performance conditions. The key assumptions used in the calculations are as follows:

Exercise or vesting date	2011 Share Option Plan	Unapproved Option Scheme	LTIP	2011 Share Option Plan	Unapproved Option Scheme
Grant date	11 October 2011	11 October 2011	29 June 2012	1 October 2012	1 October 2012
Exercise period	October 2014 – October 2016	October 2014 – October 2016	July 2015 – July 2017	October 2015 – October 2017	June 2015 – July 2016
Average share price at grant date	528p	528p	547p	812p	812p
Exercise price	528p	528p	547p	812p	812p
Shares under option	63,855	12,298	400,000	42,130	65,500
Expected volatility	36%	36%	30%	30%	30%
Expected life (years)	3	3	4	3	3
Risk free rate	2.75%	2.75%	1.00%	1.00%	1.00%
Expected dividend yield	2.35%	2.35%	2.30%	1.64%	1.64%
Fair value per option	109p	109p	85p	153p	75p

The expected volatility assumption is based on statistical analysis of the historical volatility of the company's share price.

The company also operates an HMRC approved Share Incentive Plan, which is open to all UK employees. Those joining contribute a maximum of £1,500 a year, or 10% of salary, whichever is smaller, which is used to acquire shares in the company at market price from the EMIS Group plc Employee Benefits Trust, which holds shares in the company to facilitate share-based payments.

From 1 November 2011, for every three shares (previously four shares) acquired by an employee the company adds one free "matching" share. The matching shares, together with further free shares allocated to members under the scheme during the year, had a value of £325,000 (2011: £206,000).

29. Operating lease commitments

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

Group	2012 £'000	2011 £'000
Land and buildings		
– due within one year	327	382
– due between two and five years	92	397
Plant, machinery and motor vehicles		
– due within one year	27	72
– due between two and five years	22	160
	468	1,011

30. Capital commitments

At 31 December 2012 the Group had capital commitments in respect of motor vehicles amounting to £41,000 (2011: £25,000).

31. Cash generated from operations

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Continuing operations				
Profit/(loss) before tax	24,059	21,435	(1,405)	9,074
Finance income	(54)	(100)	—	(10,000)
Finance costs	130	148	116	148
Share of result of associate	2	(81)	—	—
Share of result of joint venture	(26)	116	—	—
Operating profit(loss) from continuing activities	24,111	21,518	(1,289)	(778)
Adjustment for non-cash items:				
Amortisation of intangible assets	3,604	3,081	—	—
Depreciation of property, plant and equipment	4,938	3,395	—	—
Profit on transactions in own shares	—	(23)	—	—
Share-based payments	90	7	90	7
Joint venture loss adjusted on indebtedness	—	(116)	—	—
Operating cash flow before changes in working capital	32,743	27,862	(1,199)	(771)
Changes in working capital:				
Decrease/(increase) in inventory	179	(754)	—	—
(Increase)/decrease in trade and other receivables	(3,191)	(2,889)	—	46
Increase/(decrease) in trade and other payables	3,282	1,444	(7)	67
(Decrease)/increase in deferred income	(281)	5,250	—	—
Net cash flow from operating activities	32,732	30,913	(1,206)	(658)
Discontinued operation				
Operating loss	—	(1,894)	—	—
Adjustment for non-cash items:				
Impairment:				
– intangible assets	—	1,442	—	—
– deferred taxation released	—	(375)	—	—
Depreciation of plant and equipment	—	61	—	—
Net cash flow from discontinued operation	—	(766)	—	—

32. Change in net cash

Group	2011 £'000	Cash flow £'000	2012 £'000
Cash and cash equivalents	12,606	(1,499)	11,107
Bank loans due within one year	(1,184)	788	(396)
Bank loans due after one year	(3,396)	396	(3,000)
Net cash	8,026	(315)	7,711

33. Discontinued operation

The results of the Canadian discontinued operation, and the result recognised on the measurement to fair value of assets relating to the discontinuance in the prior year, were as follows:

Group	2012 £'000	2011 £'000
Revenue	—	126
Expenses	—	(953)
Loss before tax of discontinued operation	—	(827)
Tax	—	—
Loss after tax of discontinued operation	—	(827)
Impairment loss recognised on re-measurement of intangible assets to fair value	—	(1,442)
Less deferred taxation release	—	375
	—	(1,894)

Notes to the financial statements continued

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34. Pension commitments

The total costs charged to income consist of £186,000 (2011: £123,000) representing EMIS contributions payable to individual personal pension plans and £212,000 (2011: £106,000) in relation to RX Systems group. In the prior year and £13,000 was also included in the loss from discontinued operations in relation to personal pension arrangements for employees of EMIS Inc.

35. Related party transactions

Key management compensation

Key management includes Directors (executive and non-executive) of the parent and UK subsidiary companies, the company secretary and certain departmental heads. The compensation paid or payable to key management for employee services is shown below:

	2012 £'000	2011 £'000
Salaries and other short-term employee benefits	2,137	1,645
Post retirement benefits	306	134
Directors' emoluments	2012 £'000	2011 £'000
Aggregate emoluments	644	621
Pension costs - defined contribution plans	120	46
	764	667

Retirement benefits are accruing to four (2011: three) Directors under defined contribution personal pension schemes.

	2012 £'000	2011 £'000
Highest paid Director		
– aggregate emoluments	188	183
– pension costs – defined contribution plans	18	16
	206	199

Transactions between the Group and:	2012 £'000	2011 £'000
Associates – Pharmacy 2U Limited		
Sales of goods and services in year	31	33
Amounts owed at year end	—	—
Joint venture – Healthcare Gateway Limited		
Sales of goods and services in year	7	264
Payment for tax loss surrendered	—	19
Amounts owed by related party at year end	291	274
Key management personnel		
Sale of motor vehicles at market value	34	4

36. Subsequent events

On 14 January 2013 the Group acquired the 75% of shares in Multepos Computer Systems Limited which it did not already own for a total cash consideration of £767,000 to enable further expansion of point-of-sale services to the pharmacy customer base. The provisional fair values of the identifiable assets and liabilities acquired were cash (£103,000), property, plant and equipment (£4,000), inventories (£8,000), trade & other receivables (£61,000) and trade & other payables (£110,000). Goodwill relates principally to the experienced staff within the business. Acquisition costs of £59,000 have been included within Exceptional transaction costs in the Group Statement of Comprehensive Income.

On 6 March 2013 the Group acquired additional freehold premises in central Leeds for a consideration of £1.5m, to consolidate and expand the existing leasehold premises used for warehousing, engineering services and hosting.

37. Ultimate controlling party

The Group is not controlled by one single controlling party.

Shareholder information

Internet

The Group operates a website which can be found at www.emis-online.com/investors. This site is regularly updated to provide information about the Group. In particular, the share price and all of the Group's press releases and announcements can be found on the site. The annual report and accounts will be published on www.emis-online.com/investors. The maintenance and integrity of the website is the responsibility of the Directors. The auditor does not consider these matters.

Registrar

Any enquiries concerning your shareholding should be addressed to the company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details: Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, tel: 0871 664 0300, lines are open 8:30am to 5.30pm Monday–Friday. The registrar's website is www.capitashareportal.com. This will give you access to your personal shareholding by means of your investor code which is printed on your share certificate or statement of holding. A user ID and password will be sent to you once you have registered on the site.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the company. Details of any share dealing facilities that the company endorses will be included in company mailings or on our website. More detailed information can be found at www.moneymadeclear.org.uk.

Payment of dividends

Shareholders may find it more convenient to make arrangements to have dividends paid direct into their bank account. The advantages of this are that the dividend is credited to a shareholder's bank account on the payment date, there is no need to present cheques for payment and there is no risk of cheques being lost in the post. To set up a dividend mandate or to change an existing mandate, please contact Capita Registrars, our registrar, whose contact details appear on this page.

Share dealing services

The sale or purchase of shares must be done through a stockbroker or share dealing service provider. The London Stock Exchange provides a "Locate a broker" facility on its website which gives details of a number of companies offering share dealing services. For more information, please visit the private investors section at www.londonstockexchange.com. Please note that the Directors of the company are not seeking to encourage shareholders to either buy or to sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Share price information

The latest information on the share price is available at www.emis-online.com/investors.





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