EMIS Group plc Annual report and accounts 2016

Continued momentum

emis group

The UK leader in connected healthcare software and services.

EMIS Group continues to benefit from strong revenue visibility, loyal customers, quality products, thriving partnerships and leading or growing market shares.

Further information and investor updates can be found on our website at **www.emisgroupplc.com**

Strategic report

Governance

Financial statements

Highlights

OPERATIONAL HIGHLIGHTS

- Continued growth in revenue, recurring revenue, operating profit and improved operating margin
- Strong market share maintained across the Group and Child, Community and Mental Health (CCMH) above target
- Cost reduction measures and operational improvements within Secondary Care complete with benefits seen in the second half of 2016
- Integration of Primary & Community, CCMH, and Secondary Care begun at the end of 2016
- Growth plans for Patient Platform (Patient.info/Patient Access)

PRIMARY & COMMUNITY CARE

Strong financial performance

- UK primary care market leading position maintained at 55% market share (2015: 55%)
- EMIS Web roll-out programme progressing in Northern Ireland and Scotland in pre-procurement
- CCMH market share of 16% (2015: 12%) exceeded full year target despite slower rate of larger contract awards

COMMUNITY PHARMACY

Strong financial performance

- Market leading share of the combined supermarket/independent market increased to 37% (2015: 36%), expected to grow to close to 50% in 2018
- Next generation dispensary pharmacy management product (ProScript Connect) accredited throughout the UK and independent pharmacy roll-out begun
- Lloyds Pharmacy/AAH Pharmaceuticals ProScript Connect acceptance testing expected to complete by Q2 2017 with accelerated roll-out thereafter

SECONDARY & SPECIALIST CARE

Mixed performance

- Secondary Care largely in line with expectations after first half restructuring
- Secondary Care NHS environment remains difficult to predict but secured a number of important contract wins
- Specialist Care contract wins of £19m and significant implementation activity ongoing but profit held back by related costs and operational inefficiencies

CURRENT TRADING & OUTLOOK

In line with the Board's expectations

- Strong revenue visibility with 81% recurring revenue
- Solid order books and pipelines across every segment
- Structural re-organisation, in Primary Care, CCMH, and Secondary Care, to improve efficiency and better align the Group and its customers
- Responding positively to political and economic uncertainty
- Growth in CCMH, EMIS Care and Community Pharmacy markets with further opportunities in new models of care and Patient Platform

Total revenue

£158.7m **+2%**

2016	158.7
2015	155.9
2014	137.6
2013	105.5
2012	86.3

Adjusted operating profit[1]

£38.8m **+6%**

2016	38.8
2015	36.6
2014	32.6
2013	26.1
2012	22.8

Adjusted EPS[1]

49.4p **+9%**

2016	49.4
2015	45.3
2014	39.5
2013	34.0
2012	30.8

Recurring revenue

£128.5m **+4%**

2016	128.5
2015	123.0
2014	102.7
2013	81.4
2012	69.4

Total dividend for the year

23.4p **+10%**

2016	23.4
2015	21.2
2014	18.4
2013	16.0
2012	14.2

Cash generated from operations[2]

£38.0m **+4%**

2016	38.0
2015	36.5
2014	38.3
2013	32.6
2012	27.4

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items as set out in the Group statement of comprehensive income on page 72. Earnings per share calculations also adjust for the related tax and non-controlling interest impact.

2 Stated after deduction of capitalised development costs of £5.7m (2015: £6.2m) and of the cash impact of the cost reduction programme of £3.1m (2015: nil).

Faster, safer and better healthcare...

EMIS Group is a major provider of healthcare software, information technology and related services in the UK. Our solutions are widely used across every major healthcare setting from primary and community care, to high street pharmacies, secondary care and specialist care services.

This puts the Group in a unique position to facilitate the NHS's connected care strategy across every major UK healthcare setting.

Our brands

Healthcare management software and services

EMIS Health provides clinical software to customers across the healthcare sector, including providers in primary care, community pharmacy, community care, mental health, child health, secondary care and diabetic eye screening, as well as commissioners and public health and research organisations.

Provision of healthcare screening

EMIS Care is the healthcare screening arm of EMIS Group, specialising in the delivery of diabetic retinopathy eye screening.

Patient-facing and online services

Patient.info is the UK's leading independent online health platform, accessed globally by millions of visitors each month. Patient Platform Limited became a separate limited company owned by EMIS Group on 1 January 2017.

Non-clinical ICT solutions and services

Egton provides non-clinical products and services for customers across the EMIS Group and to others in the healthcare market. Since December 2016, Egton also offers software to the social care sector.

Strategy
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...with integrated and innovative technology

We link up different healthcare sectors through integrated and interoperable technology that makes patient information available where it is needed, when it is needed.

It is more efficient for the NHS and it is how we support longer and healthier lives.

EMIS Group serves the following healthcare settings

PRIMARY & COMMUNITY CARE

63% of Group revenue

Primary care – EMIS Group provides the technology to connect different primary care services, as well as joining them up with wider healthcare services. It means GPs and specialist clinics such as diabetes can instantly access a complete picture of the patient's care. This is integrated care, and it improves efficiency, patient safety and clinical outcomes.

Child, community and mental health – EMIS Group enables healthcare professionals working in a child, community or mental health setting to access and contribute to the patient's GP record. In turn, primary care professionals can see the details recorded by their colleagues working in wider healthcare environments – instantly and in real time. This means a better experience for the patient because their care is joined up.

Patient – This is the Group's online platform that helps patients play a key part in their own healthcare through high quality information and guidance. It also supports professionals in clinical decision making by providing high quality, accurate and up-to-date reference material.

Egton – A provider of non-clinical ICT solutions such as back-office document sharing systems for healthcare professionals and other regulated business-to-business organisations. It also supplies ICT infrastructure and hosting services and, since December 2016, social care administrative software.

SECONDARY & SPECIALIST CARE

24% of Group revenue

Secondary care – EMIS Group software is used by NHS Trusts in a wide range of secondary care settings.

Our systems are mainly used to manage hospital pharmacy and prescribing, emergency care and electronic patient records (including patient administration systems).

Specialist care – EMIS Group provides IT systems for specialist care settings, offering expert and invaluable solutions to niche markets with specific requirements, such as image management and storage for the ophthalmology market. The Group also provides diabetic retinopathy screening services for patients.

COMMUNITY PHARMACY

13% of Group revenue

ProScript – The single most widely used system in the community pharmacy software market. It efficiently manages the dispensing process and handles standard tasks such as labelling and endorsing, patient records, ordering and stock control. It is used by independent community pharmacies, pharmacy group chains and supermarket pharmacies.

Pharmacy Access – This enables pharmacies to view a summarised patient record and order repeat prescriptions direct from the GP. It provides an introduction to the provision of clinical services by pharmacies, such as flu vaccinations and smoking cessation.

2017 will see Primary & Community and Secondary Care come together under common leadership to create one integrated business under the EMIS Health brand. This will both align the Group with the NHS's need to deliver more integrated care between hospitals, GP practices and community services and optimise the Group's cost base.

Longer, healthier lives

The Group again made progress in all key finanacial metrics and continues to benefit from strong revenue visibility and market share, a solid order book and a healthy sales pipeline.

Dear Shareholder

It is my pleasure to present to you the 2016 annual report, which provides an overview of the Group's performance over the year.

Performance overview

Overall performance for the year was in line with the Board's expectations with strong profitability and cash generation.

An increasingly difficult environment, created by NHS funding pressure and by a procurement pause as NHS local plans emerged to address its funding gap, impacted Group performance, slowing the rate of growth in 2016. However, the Group again made progress in all key financial metrics and continues to benefit from strong revenue visibility and market share, a solid order book and a healthy sales pipeline. Further details of the Group's achievements during the year are set out in the CEO's Q&A on page 6 and the operational review on pages 20 to 27.

Restructure

The Group has accelerated its internal integration in 2017 to reflect anticipated changes in NHS models of care. In January 2017, it began bringing together its Primary & Community Care and Secondary Care businesses under common leadership. The majority of the integration process is expected to be completed by the end of the first quarter of 2017. This will align the Group with the NHS's need to deliver more connected care between hospitals, GP practices and community services, and also optimise the Group's cost base.

> **The Group has accelerated its internal integration in 2017 to reflect anticipated changes in NHS models of care.**

Strong governance

As Chairman of the Board my role is to be responsible for ensuring the Board operates within a sound governance framework, based on best practice principles suitable for a company listed on the Alternative Investment Market. This has continued to be an important focus during the year and will remain so during 2017. The Board is committed to setting the correct tone and, by ensuring the highest level of governance, we seek to ensure that the business operates in a transparent and ethical way that will benefit all stakeholders.

Details of how the governance framework operates in practice and how risk is managed and mitigated are set out in the corporate governance report on pages 38 to 45.

Dividend

Your Board remains committed to a progressive dividend policy and has pleasure in recommending a final dividend of 11.7p per share which, together with the interim dividend of 11.7p, provides a total dividend for the year of 23.4p per share. Subject to approval by shareholders at the AGM on 28 April 2017, the final dividend will be paid on 3 May 2017 to shareholders on the register on 31 March 2017. Details of the Group's capital allocation policy are set out on page 67.

Our people

2016 has been a challenging year and it is a testament to the continued strong commitment, professionalism and desire to succeed of our employees that we have once again produced such a strong performance. Some difficult decisions have had to be taken during the year, which have resulted in a reduction in the workforce in some parts of the Group. However, we have sought to ensure that those decisions were implemented in a fair and transparent way, consistent with the Group's values and beliefs.

On behalf of the Board, I thank all of our employees for enabling us to continue to facilitate better patient outcomes and more efficient healthcare delivery, thus supporting longer and healthier lives for everyone.

Mike O'Leary
Chairman
15 March 2017

EMIS GROUP VALUES

During 2016 EMIS Group staff helped to define four key values that underpin every area of the business. These values are closely aligned with our customers' priorities, so that the fabric and culture of our business is synonymous with meeting and exceeding external and internal expectations.

We are caring

We are a caring organisation: we look after our customers, their patients and our colleagues. We care about the quality of the products and services we provide. We care about citizen health: every business function helps our ambition to support longer and healthier lives – from the 24/7 support we provide to our community customers, to our user experience teams, who ensure that our software products allow healthcare professionals' focus to be on the patient and not the technology.

We are innovative

EMIS Group operates in a culture of innovation. We spend over £17m on research and development each year. We lead the field in finding new ways to use technology to benefit healthcare. We collaborate with world class organisations to innovate too. For example our work with Apple to come up with solutions to make patient healthcare data more accessible to citizens and partnership with healthcare charities like the UK Sepsis Trust to develop software to help clinicians recognise and treat sepsis.

We are joined up

We believe that the healthcare sector works best when it safely shares vital patient information. Joined-up healthcare is when a GP, a pharmacist and an A&E consultant are all aware of a patient's allergies, current medication, recent tests and long-term conditions. It means they can provide the best possible care with the best possible information. With a strong presence in every major healthcare setting, EMIS Group is uniquely placed to provide the technology to enable this.

We do this by being joined up as a business and taking a collaborative approach with our strategic customers and partners.

We are accountable

One of the cornerstones of EMIS Group is customer service. We listen to customers and deliver what they need. Whether that is by working in partnership on development and implementation, or by hitting and exceeding our support targets, good relationships with our customers is a priority. It is why, for example, almost 75% of our primary care customers have been with us for more than ten years.

Aligned with NHS strategy

Successfully digitising the NHS is essential for better health, better healthcare and to lower costs.

The NHS needs joined-up IT systems to reduce costs and drive up the quality of healthcare. This is what we do best.

What were the highlights of 2016?

2016 was a busy year of progress and achievements throughout the Group.

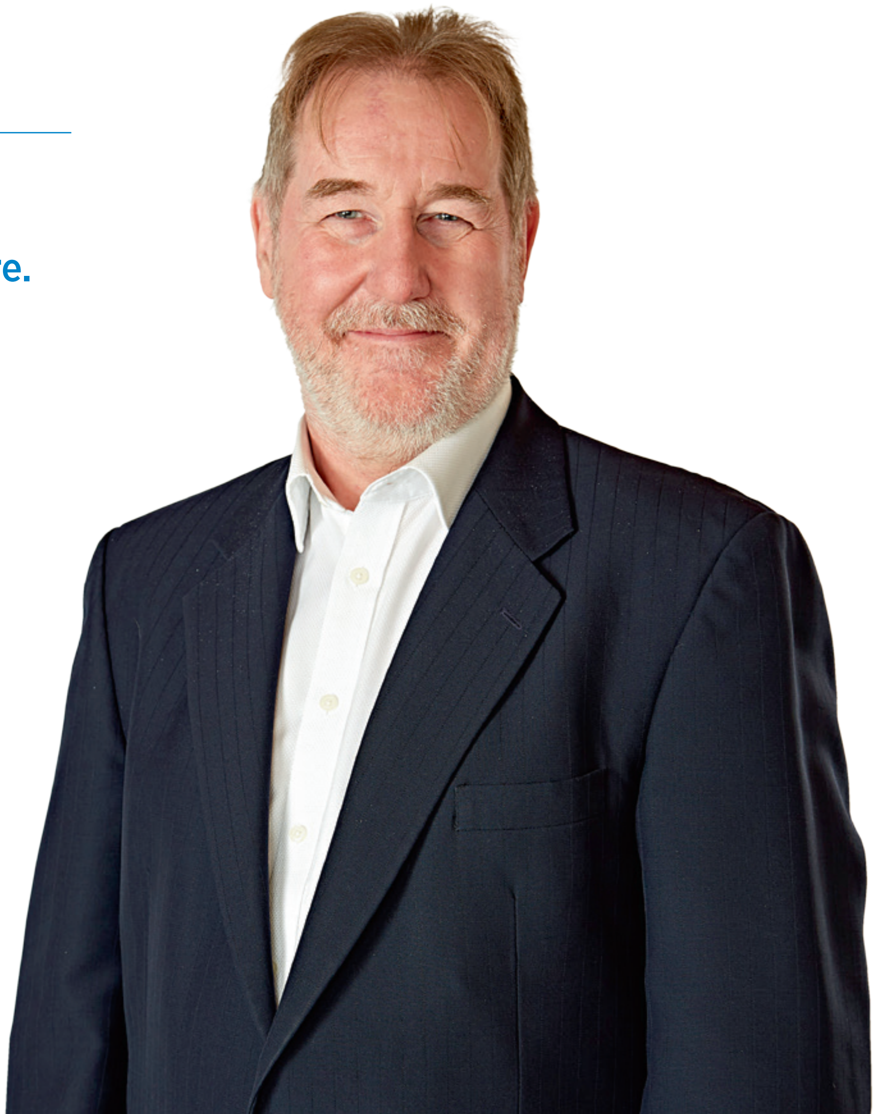
In Primary & Community Care, GP market share was retained in England and we began to roll out EMIS Web in Northern Ireland. Reprocurement of the primary care framework agreement has begun in Wales, and in Scotland EMIS Web is being offered in place of the Group's older software and pre-procurement has begun for likely implementation in 2018.

The Group's child, community and mental health (CCMH) market share grew exceeding the Group's internal target to 16% (31 December 2015: 12%). Sixteen material contract wins were secured in the year plus an additional two subsequently.

We made progress in our aim to help deliver connected care. Fifty-one Clinical Commissioning Groups (CCGs) use EMIS Health systems across 100% of their GP practices, and EMIS Health is the sole supplier in primary care with a strong presence in CCMH in 38 CCGs.

Egton Digital performed well in the year. In December 2016 it extended the Group's capabilities into social care through the acquisition of Intrelate for net cash consideration of £0.8m.

Patient.info saw an increase in unique monthly visitors from 11.5 million to over 18 million during the year and generated advertising revenues in excess of £2.0m. We appointed a new CEO for the business to accelerate growth into a marketplace



e-commerce platform, connecting Patient.info's global audience to a network of digital healthcare services.

The Secondary Care division performed largely in line with expectations, making progress in a number of areas including becoming one of two suppliers on the NHS Scotland Hospital Electronic Prescribing and Medicines Administration (HEPMA) framework, worth £15m over two years.

EMIS Health Specialist Care maintained its position as the leading software provider in English diabetic retinopathy screening with a 77% market share. EMIS Care remains the clear market leader in outsourced diabetic eye screening and ophthalmology imaging services with a number of contract wins during the year.

The Community Pharmacy division continued to prepare for future market share growth (from 37% to circa 50% by 2018) through implementation of the agreement with AAH Pharmaceuticals/ Lloyds Pharmacy. The Group's next generation pharmacy dispensary management product, ProScript Connect, has been accredited in England, Scotland and Wales.

Operational review
Page 20

What are the challenges in the market and how can you help?

2016 saw increasingly difficult market conditions created by the estimated £30bn NHS funding gap. The NHS's task is to redesign itself and deliver faster, better and cheaper care to address this shortfall, by focussing on prevention and changing how healthcare is delivered. NHS England's 2015 strategy document "The Forward View" detailed that the NHS needs joined-up IT systems to reduce costs and drive up the quality of healthcare. This is what we do best.

An additional challenge was a strategic pause in England as the NHS's local plans to address its funding gap emerged (called Sustainability and Transformation Plans or STPs). Delivering connected care through an increasingly digitally joined-up NHS is an important part of STPs. This endorses the Group strategy of facilitating connected care, and offers an opportunity as additional funding has been announced for healthcare technology.

Circa £1.8bn is expected to be allocated to the paperless NHS agenda and circa £0.5bn to the completion of the national programme for IT contracts. NHS England states that being paperless at the point of care is about "digital information that is more comprehensive, more timely and better quality".

This was further reinforced by the publication of a key strategy paper in September 2016. Professor Robert M Wachter's report, "Making IT Work: Harnessing the Power of Health Information Technology to Improve Care in England", argues that successfully digitising the NHS is essential for better health, better healthcare and to lower costs, and recommends the allocation of new national funding to help trusts go digital and achieve maximum benefit from digitisation.

Markets
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What other opportunities are there?

EMIS Group has opportunities for growth in our core markets of software and service provision to community care, secondary care and community pharmacy, and to extend into emergency care, such as walk-in centres. This strengthens our integrated care proposition by connecting emergency and primary care.

EMIS Group also offers a suite of products to streamline back-office operations.

Our integrated intelligence products allow NHS organisations to interrogate macro-level data from multiple healthcare settings to improve processes.

Egton Digital provides back-office systems such as practice internet sites and intranet systems that enable non-clinical document storage and sharing. Egton Digital will pioneer the Group's steps into social care, following the acquisition of Intrelate in December 2016.

Patient.info became a separate limited company owned by EMIS Group on 1 January 2017, which offers opportunity for further growth in online media revenue. There are plans for a patient platform that will help people take a more active role in their healthcare, particularly around prevention of illness: a key area of focus for the NHS in 2017.

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What is integrated care and why is it important?

Integrated care is when the patient experience is seamless when transferred from one healthcare professional to another. This means one or more healthcare services can use and often add to information recorded by other healthcare professionals.

Across the UK, healthcare professionals work without the data they need to do their jobs effectively, such as A&E departments treating patients without sight of their medical history or allergies. This causes clinical risk, delays to treatment, duplication of work, increased costs and lower productivity, and worsens patient experience.

Integrated care means joining all this up through technology. In the last few years we have seen our customers start to connect their services with our systems. They have made massive strides in delivering care that is faster, better and cheaper.

This is the direction of travel for large scale NHS procurements. EMIS Group is perfectly placed to provide the technology, and has been doing so for many years.

Business model
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What is the likely impact of Brexit on the Group?

The outcome of the referendum to leave the EU has minimal direct effect on the Group as it is not a significant exporter or importer of goods or services to or from affected areas. The indirect effects include: exchange rate volatility affecting the value of sterling when the company pays overseas staff; increased pressures placed on NHS budgets; and relations with non-UK national employees and the cost of attracting or retaining such staff.

Chris Spencer
Chief Executive Officer
15 March 2017

Facilitating improved clinical outcomes and efficiency...

OUR KEY INPUTS

- Innovative connected technology services.
- Highly skilled people.
- Trusted brand.
- Strong relationships and strategically aligned with government, partners and the markets we serve.
- Strong revenue visibility.
- Responsible leadership.
- Strong culture of caring for both patients and customers.

Markets
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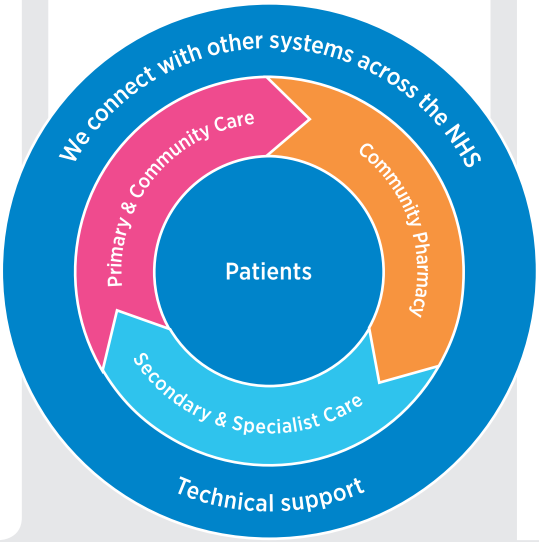
Clinicians use our systems to care for patients every day



WHAT WE DO

- Support the constantly evolving landscape of healthcare through well implemented, dynamic and innovative software and services.
- Listen to customers and citizens and deliver what they need.
- Deliver on our connected product strategy to facilitate the use of clinical information.
- Maximise the return on our resources by joining them up and making them super-efficient.
- Ensure that information is available where it's needed, when it's needed.

Strategy
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INTEGRATED CARE CASE STUDY

Record sharing helps improve end-of-life care

East Cheshire Hospice in Macclesfield is using EMIS Web to securely share vital data with other organisations as part of the national Electronic Palliative Care Co-ordination Systems (EPaCCS). The hospice team worked with EMIS Health to tailor the technology to its patients' needs, and says it has been "invaluable" in helping to improve end of life care.

The hospice has cared for over 400 inpatients and over 300 day patients, and delivered 1,700 outpatient appointments since EMIS Web was introduced in April 2015.

Helen Knight, Clinical and Operations Director of the hospice, said: "End-of-life care involves often complex and sensitive discussions with patients, whether it is about their preferred place of death or decisions that may be taken on their behalf once they're no longer able to. Being able to record that information and ensuring it is visible to the right people at the right time is crucial.

"Until EMIS Web was introduced, we simply weren't able to ensure the records were up to date or readily accessible. Patients often had to repeat themselves and we weren't able to capture data for monitoring and auditing."

Now with EMIS Web, the team is able to record patients' wishes accurately and consistently across healthcare services (e.g. advanced decisions and preferred place of death), ensuring they are visible in real time when needed.

Mike Drew, ICT Manager for the hospice, said: "We have shown that with a co-ordinated approach and a great interoperable IT system, we can collect and share patient data to improve patient care. We are very proud that the technology is helping our patients to end their lives with dignity and in the way that they wish.

...through connected technology services

HOW WE GENERATE REVENUE

Through providing:

- Software licences.
- Software maintenance and support.
- Hosting services.
- Hardware installation, maintenance and support.
- Training, consultancy and implementation.
- Other support services, including screening services.
- Interoperability fees.

Financial review
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HOW WE ADD VALUE

- Join up healthcare through innovative IT to give better access to information for better, faster and cheaper patient care.
- Deliver planned returns to customers, clinicians, citizens, investors and other stakeholders.
- Ensure that healthcare maximises the benefits that can be attained through clinically focussed, innovative software.
- Strong cash generation through recurring revenues.
- Retain and grow market share.

Operational review
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WHY CUSTOMERS CHOOSE US

- We are clinically focussed.
- We are pioneering.
- We are joining up healthcare.
- We care about what we do.
- We assist in providing better patient care.
- We are their trusted supplier.
- We are used in every major healthcare setting directly supporting patients and clinicians to provide safe and efficient care.

Case studies
Pages 21 – 26

“We have shown that with a co-ordinated approach and a great interoperable IT system, we can collect and share patient data to improve patient care. We are very proud that the technology is helping our patients to end their lives with dignity and in the way that they wish.”

Mike Drew
ICT Manager, East Cheshire Hospice

“Simply, it’s the best thing we’ve done – and we want to help others do the same. So far, almost 30 other hospices have visited us to see the difference it’s made.”

East Cheshire Hospice is now looking to introduce managed referrals, which will allow referrals to be made electronically via the system, and to start prescribing via EMIS Web. The Hospice@Home service, which they hope to launch by 2018 will also rely on EMIS Health technology. Mike Drew is now chairing a dedicated hospice user group to work with EMIS Health to make it even better.

EMIS Group and NHS strategy: putting IT at the heart of an efficient NHS

Two significant papers defined the market in England in 2016: "Paper-free at the Point of Care: Guidance for Developing Local Digital Roadmaps" and "Harnessing the Power of Health Information Technology to Improve Care in England". They provide further evidence that EMIS Group delivers the technology the NHS needs to meet current market challenges. Scotland, Wales and Northern Ireland have separate national plans, which follow the same theme – to use the power of technology to join up care to deliver faster, better and cheaper healthcare.

THE FORWARD VIEW INTO ACTION

"Paper-free at the Point of Care: Guidance for Developing Local Digital Roadmaps" National Information Board

Commissioners, providers and social care partners were invited by the NHS's National Information Board to come together to produce Local Digital Roadmaps (LDRs). These roadmaps are intended to drive the vision of the NHS as set out in the NHS Forward View. The guidance was released in September 2015, and sets out the vision of healthcare in 2016 and over the next four years. An information sharing approach will underpin the paper-free vision, so interoperable IT systems will be key.

Every local health and care system will be expected to deliver ten universal capabilities by March 2018:

1

Professionals across care settings can access information on GP prescribed medications, patient allergies and adverse reactions
With EMIS Web, customers are able to share this key information between a wide range of healthcare professionals such as GPs, A&E consultants, community care clinicians and community pharmacists.

2

Clinicians in urgent and emergency care settings access key GP-held information for patients previously identified as most likely to present at A&E
EMIS Group technology makes this possible. Somerset CCG implemented EMIS Web to share vital GP record information with all emergency departments in the region.

3

Patients can access their GP record
EMIS Health was the first to launch this facility in the UK GP market, and now 97.7% of practices have enabled patient access to records.

4

GPs can refer electronically to secondary care
99.5% of GP customers use the national e-Referral Service (ERS), which enables them to electronically refer patients to secondary care. This functionality is also available in EMIS Web.

DIGITISING THE NHS

“Making IT Work – Harnessing the Power of Health Information Technology to Improve Care in England”

Professor Robert M Wachter

This is the first report of the National Health Information Advisory Group on Health Information Technology in England, chaired by Professor Robert M Wachter. The report is focussed on the efforts of the NHS in England to digitise secondary care.

It is unequivocal about the fundamental role of IT for the future of the health service. It argues that successfully digitising the NHS is essential to achieve the triple aim of better health, better healthcare and lower cost.

The report outlines that a consensus has now emerged that the time has come to move forward with technology – hence the allocation by the treasury of £4.2bn to support the digitisation of the NHS.

It concludes: “The one thing that the NHS cannot afford to do is to remain a largely non-digital system. It is time to get on with IT.”

How EMIS Group addresses the market challenges

Put simply, by providing the technology to join it up.

Patient records accompany citizens as they move through the varying touch points of the NHS, creating a digitised and paper-free NHS.

These reports, together with the focus of the Sustainability Transformation Plans (STPs) (see Chief Executive Officer’s Q&A on pages 6 and 7), all agree that joining up healthcare through technology means customers can deliver faster, better and cheaper healthcare.

5

GPs receive timely electronic discharge summaries from secondary care
Secondary care can send automated hospital discharge letters to primary care. eDischarge is available in EMIS Health CaMIS (patient administration system) and Symphony (accident and emergency), ensuring that letters to GPs are sent electronically.

6

Social care receive timely electronic assessment, discharge and withdrawal notices from acute care
With the acquisition of Intrelate in December 2016, the Group is taking the first steps towards becoming an integrated health and social care provider, linking Egton Digital’s Carista with EMIS Web.

7

Clinicians in unscheduled care settings can access child protection information with social care professionals notified accordingly
National child protection data is integrated directly into Symphony, the Group’s emergency care clinical system, alerting clinicians when they are dealing with a known vulnerable child or young adult.

8

Professionals across care settings made aware of end-of-life preferences
Healthcare localities are increasingly using EMIS Web to share patient records between GPs, CCMH settings and hospices, to keep everyone involved up to date on clinical information and patient preferences.

9

GPs and community pharmacists can utilise electronic prescriptions
88.7% of GP customers can send basic prescription information to community pharmacies with the national Electronic Prescriptions Service (EPS). Enhanced prescription information can be sent to and from EMIS Group GP and community pharmacy systems.

10

Patients can book appointments and order repeat prescriptions from the GP practice
EMIS Health was the first supplier to provide this for patients of its GP customers, winning an innovation award in 2005. During 2016, 7.5 million appointments were booked and 10.3 million repeat prescriptions ordered using our systems.

Our vision

To support longer and healthier lives for everyone by providing integrated, excellent and innovative healthcare IT.

Our 2016 achievements and 2017 priorities

1 One EMIS Group

2016 ACHIEVEMENTS

- Improved clinical product development delivery across the Group through formally merging Primary & Community Care and Secondary Care development.
- Improved clinical sales, support and implementation across the Group through closer working of the Primary & Community Care and Secondary Care senior management teams.
- Improved staff mobility within the Group and lessened risk of inequality through the creation and roll-out of a single remuneration framework for all central Group, EMIS Health and Egton staff.
- Improved our vision of integration of care through development of a specific product growth strategy to identify products that we will support, those we will not and those we will be creating afresh.
- Prepared proactively to lead the NHS and other customers toward full integration of care through planning for the formal merger of EMIS Health Primary & Community Care and Secondary Care.

2017 PRIORITIES

- Continue the implementation of common, joined-up internal systems across EMIS Group.
- Bring together the Primary & Community Care division with our Secondary & Specialist Care division.
- Continue the implementation of the growth strategy and optimal organisational model.

1 EMIS Group

2 Deliver financial performance

2016 ACHIEVEMENTS

- Full year results delivered in line with expectations.
- Contract wins in CCMH and Secondary Care, continuing positive momentum.
- Good progress towards development, accreditation and roll-out of the new enhanced dispensary product into existing and Lloyds pharmacies.
- Implementation of cost reduction programme to ensure the business is appropriately resourced for lower growth environment.
- Continuation of the roll-out of an enterprise resource planning solution.
- Pinbellcom performing well (2015 acquisition).
- Acquisition of Intrelate, giving direct access to social care market.

2017 PRIORITIES

- Continue to deliver on financial expectations for the business.
- Business reorganisation to respond to emerging integrated healthcare markets and drive down cost.
- Operational improvement plans in Specialist Care.
- Accelerated investment in Patient business and India-based development team.
- Focus on EMIS Web roll-out for primary care in Northern Ireland, securing a renewed contract in Scotland and optimising positions in England and Wales in primary care.
- Implementation of ProScript Connect software across the entire Community Pharmacy estate in 2017/18.
- Review of capital structure and re-banking.

16% market share in CCMH

3 People: communication, engagement and development

2016 ACHIEVEMENTS

- Continued development of a transformational people strategy that saw the harmonisation of pay and benefits and terms and conditions across the Group.
- Our second Group-wide employee engagement survey, "Your Say", showed further improvement in our engagement scores.
- Senior management development has continued. Over 300 managers started a development programme called "Leading the EMIS Group Way".
- Investment in an online management learning and development portal, which is available throughout EMIS Group.
- Further strengthened the internal communications function and piloted a new innovative social media platform with plans to improve communication with field teams and more face-to-face leadership sessions.

2017 PRIORITIES

- Attract and actively manage the best talent.
- Embrace and value equality and diversity across the Group.
- Encourage contributing to our communities.
- Better understand and improve employee engagement.
- Continue to develop a "learning" organisation.

300+ **managers have started a development programme**

4 Strategic customer and stakeholder engagement

2016 ACHIEVEMENTS

- Strategic pathfinder programme established with key health economies to discuss alignment of local NHS and EMIS Health strategy.
- Strong working relationships established in all four UK countries at a national level.
- Representation on the Digital Primary Care Executive Board alongside the Department of Health, NHS England, NHS Digital and other key suppliers to review the effectiveness of the National Information Board (NIB) 2020 plans for digitising primary care.
- Worked closely with one of the Global Digital Exemplars (GDE) as their partner of choice.

2017 PRIORITIES

- Work closely at the new planning levels of STPs and LDRs, especially where EMIS Health has a strong market share.
- Become part of the GDE and NHS England Vanguard programmes to create technologies for new models of care.
- Build on the strength of relationships with the national authorities across the UK to align national, regional and local NHS requirements.
- Continue to bring together CCGs, community trusts and secondary care acute trusts to support new models of care.

14 **strategic pathfinder customers**

Our vision continued

To support longer and healthier lives for everyone by providing integrated, excellent and innovative healthcare IT.

Our 2016 achievements and 2017 priorities continued

5 Deliver a one-system brand and product strategy

2016 ACHIEVEMENTS

- Strategy created around the EMIS Health Framework (currently covering EMIS Web for GP, EMIS Web for Community, EMIS Web for Urgent Care, EPMA and EMIS Mobile).
- End of product life of legacy primary care products EMIS LV and EMIS PCS in Northern Ireland and Scotland.
- Announced that the end of product life of ePex, legacy mental health system, will be at the end of 2017.
- EMIS Health strengthened as the single brand for the Primary & Community and Secondary Care and Community Pharmacy divisions.

2017 PRIORITIES

- Create consistent EMIS Health product branding and establish the EMIS Group branding guidelines for all corporate and product branding use.
- Implement mobile infrastructure for all EMIS Health framework solutions.
- Deliver urgent and emergency care product in all care settings.
- Leverage EMIS Health clinical platform in all relevant sectors, including EMIS Web for community pharmacy implementation.

605m patient consultations were recorded in EMIS Web in 2016

6 Promote customer and clinical operational outcomes

2016 ACHIEVEMENTS

- National media recognition for the Group's work with national charities when our software alert for the life threatening condition, sepsis, was rolled out across the country.
- Customer speaker slots at national industry events, highlighting how the Group products have helped drive up the standard of care.
- The PR strategy delivered 648 million opportunities for people to read company press releases, including customer stories about clinical and operational outcomes using our products.
- A programme of thought leadership positions the Group as a healthcare supplier committed to improved healthcare outcomes using technology.

2017 PRIORITIES

- A proactive PR strategy will continue to promote clinical and operational outcomes of our customers' integrated care projects through the Group channels and to industry and national media.
- Speaker sessions at events will continue to demonstrate on a national level the improved clinical outcomes that customers are achieving with Group technology.
- Engagement with third party academic organisations in projects.
- Highlight the work EMIS Group does with charities to promote longer and healthier lives in the UK.
- Use the 30-year anniversary of EMIS Group to raise the profile of the EMIS Group brands and raise awareness of the EMIS Health proposition.

648m opportunities for people to read our PR stories

7 Further enhancement of Patient online services

2016 ACHIEVEMENTS

- 97% deployment of the Patient Access summary care record and newly created detailed care record viewer across the 4,300 English GP practices.
- 5.1 million users of Patient Access.
- Established partnership for an e-consultations product for patients.
- Plan for creation and growth of Patient Platform.

2017 PRIORITIES

- Build a professional team that has a passion for digital healthcare and truly believes in further enhancing the Patient brand as the favourite on-demand healthcare marketplace.
- Build the Patient Platform to enable patients to manage their own health and access multiple clinical services.
- Grow, engage and monetise the Patient user-base through the delivery of personalised content and community and clinical experiences.
- Attract and network clinical professionals, pharmacies and strategic partners to power Patient's global healthcare marketplace.

10.3m repeat prescriptions ordered using Patient Access in 2016

8 Consolidate clinical services provision

2016 ACHIEVEMENTS

- Rebranded the diabetic eye screening arm of the business, Medical Imaging, to EMIS Care.
- Secured a number of mainly three-year initial term contracts with an initial total contract value of £19m, which will see EMIS Care's market share rise to 26%.
- Integrated service provision and software development teams into a single division.

2017 PRIORITIES

- Successfully mobilise diabetic eye screening programmes won in 2016.
- Continue to focus on delivering high-quality screening services by optimising available resources.

26% market share forecast for EMIS Care

Management of risk

The Board sets clear strategic objectives for the business and risks to the achievement of those objectives are identified by corporate and divisional management.

Our risk management framework

The Board has overall responsibility for ensuring risk is appropriately managed across the business and it has approved a Group risk management policy which outlines the Group's risk management approach.

The Board sets clear strategic objectives for the business and risks to the achievement of those objectives are identified by corporate and divisional management through the creation and maintenance of risk registers. These are consolidated to form the Group's corporate risk register.

The corporate risk register is considered by the CEO and reviewed and discussed by the Group Executive Board before being submitted to the main Board at least twice a year for review. The audit committee provides further independent review and robust challenge, and internal audit provides independent assurance through a programme of risk-based reviews.

Identified risks are evaluated, both before and after controls and mitigating actions have been applied, as to their likelihood of occurring and potential financial and reputational impact. Risks are treated in accordance with risk appetite, which has been defined by the Board across a range of risk categories. The Board's risk appetite is described on page 49.

Each risk is assigned to an appropriate individual or discrete operating group and all mitigation and action plans are recorded and monitored.

During the year, the Board approved a project to configure the Group's proprietary risk management software application (called TheOneView) for internal use. The primary benefits of TheOneView are to encourage wider involvement in the risk management process, improve consistency in the evaluation and treatment of risks, automate the consolidation of risk registers, provide a real-time view of the Group's risk profile, enable assignment of tasks and actions directly to managers, and provide improved risk reporting and monitoring. This system is expected to be in operation throughout most of 2017.

The principal risks and uncertainties identified by management and how they are being managed are set out on pages 17 to 19. These risks are not intended to be an extensive analysis of all risks that may arise in the ordinary course of business or otherwise.

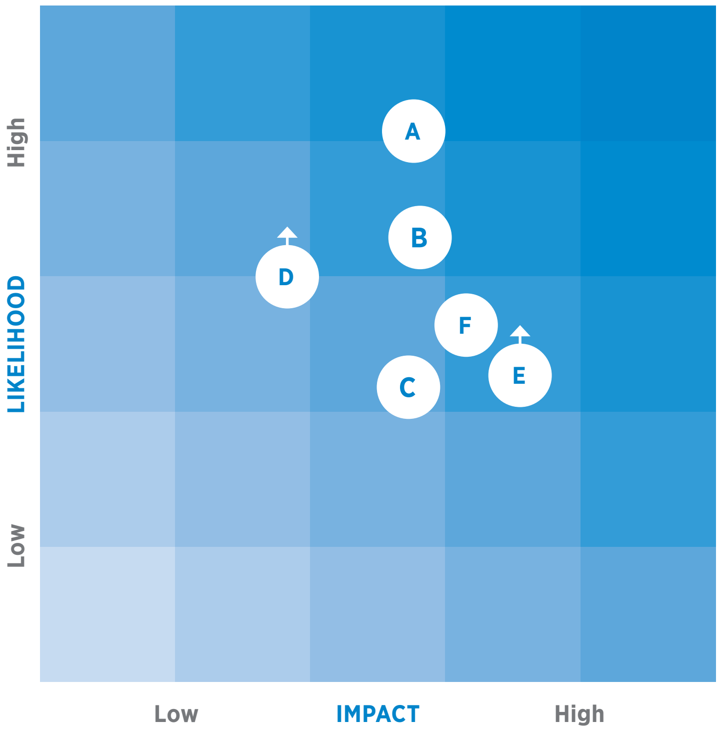
The principal financial risks are disclosed in note 3 to the financial statements on page 82.

Corporate governance
Page 38

Audit committee
Page 46

Risk heat map

The risk heat map below provides a graphical representation of the principal risks and uncertainties described in detail on pages 17 to 19. It shows the assessment of the relative impact and likelihood of each risk, along with an indication of the year on year movement of each risk (explained more fully in the risk description on the following pages).



A Healthcare structure and procurement changes
B Product integration and interoperability
C Software development and hosting
D Recruitment and retention
E Information governance and cyber security
F Clinical safety

A Healthcare structure and procurement changes

DESCRIPTION OF RISK

The Group is dependent on the strategic direction of the NHS in respect of how it plans to make use of available IT innovations to reduce its costs and improve its efficiency.

The ability to sell hosted and managed products to the healthcare community can be affected by the way the NHS procures goods and services. The NHS is constantly looking for ways to reduce its cost base and improve efficiency; this may include how it is organised and how it procures goods and services, including outsourcing services.

There is a risk that EMIS Group services are not in line with the strategic requirements of the healthcare industry or that these requirements will change with successive governments.

HOW WE MITIGATE THE RISK

To ensure it is not disadvantaged by changes in healthcare structures and procurement policies, EMIS Group ensures that its strategies are closely aligned with government policies.

Specific actions taken to mitigate this risk include:

- close engagement with the NHS at both strategic and tactical levels;
- working to ensure the Group is perceived not just as a GP supplier but as a supplier of connected IT healthcare solutions covering a wide range of healthcare sectors including pharmacies, secondary care, specialist care, community, social care and mental health, as well as primary care;
- proactive response to published NHS plans and changes in structures, e.g. the NHS Forward View and the development of GP federations;
- regular monitoring and analysis of the markets and competitors;
- development of clear, integrated market and product strategies;
- ongoing review of our sales team structures including establishing an integrated sales board to better manage pan-healthcare economy procurement structures;
- development of a strategic mental health solution; and
- development of next generation pharmacy software.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6 7 8

B Product integration and interoperability

DESCRIPTION OF RISK

The Group's core strategy is to provide IT healthcare systems, across a range of healthcare sectors, which are integrated with each other and interoperable with other non-Group systems. This efficiently aligns technology and workflows and enables realisation of the best clinical safety and financial outcomes.

Failure to achieve this could have a significant impact on the Group's ability to meet the government's healthcare technology requirements and to sell its products and services to the NHS and others in the longer term.

In order to achieve its objectives the Group has, in recent years, acquired several businesses across a range of healthcare sectors. There is a risk that these businesses do not function effectively as a group, impacting on the success of product integration.

HOW WE MITIGATE THE RISK

The Group has taken a range of actions designed to bring together its products and create synergies across the Group:

- Board-level responsibility for product and acquisition integration with a clear strategic plan and regular monitoring;
- established Group standards to share and mandate best practice in, for example, software development, customer support, project implementation, clinical safety governance and cross-sector product integration;
- all integrated product implementations include a clinical safety review;
- open API strategy to enable the Group to work with any other supplier;
- extending connectivity between the Group and third party solutions providers; and
- planning for bringing together our Primary & Community Care and Secondary Care businesses.

LINK TO STRATEGIC PRIORITIES

1 2 4 5 6 7

KEY

1. One EMIS Group
2. Deliver financial performance
3. People: communication engagement and development
4. Strategic customer and stakeholder engagement
5. Deliver a "one-system brand and product strategy"
6. Promote customer clinical and operational outcomes
7. Further enhancement of Patient online services
8. Consolidate clinical services provision

Principal risks and uncertainties continued

C Software development and hosting

DESCRIPTION OF RISK

The Group's core products are critical to the efficient and effective operation of a wide range of healthcare organisations and they are designed and developed to meet the exacting standards of our key customers and the needs of patients and carers.

The technical or physical failure of our systems, during development, implementation or everyday use, could lead to disruption or complete service denial of high profile public services.

The Group hosts a significant proportion of the patient information that supports our systems and this creates significant risks associated with information security and system reliability. These risks are covered separately in more detail under information governance.

HOW WE MITIGATE THE RISK

In order to ensure the secure and effective development, implementation and hosting of new and existing products, the Group has in place a range of mitigating actions including:

- development brought together as a Group function and a strategy to lead effective development prioritisation;
- a staged new system implementation process that minimises disruption and tests system operation on pilot systems before wider implementation;
- ring-fencing of development teams to preserve sensitive data security and integrity;
- ISO-certified secure IT hosting facilities. Dual hosting sites operating in real-time enable almost instant failover; and
- disaster recovery plans in place, tested, externally challenged and reviewed regularly.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 6 8

D Recruitment and retention

DESCRIPTION OF RISK

The Group is reliant on the skills and knowledge of its people in a wide range of areas, but especially in software development, clinical safety and information technology systems.

Failure to recruit and retain an appropriate number of suitably qualified people in critical areas could lead to a deterioration in the quality of products and services. This could lead to failure to meet customers' needs, losing their business and to the Group failing to deliver expected financial returns to shareholders.

Following the announcement in December 2016 of the CEO's decision to retire during 2017 there is a heightened risk that a suitably qualified and experienced replacement is not identified on a timely basis.

HOW WE MITIGATE THE RISK

Key actions implemented or commenced during the year include:

- implementation of a people strategy across the Group;
- providing an environment for improved communication, engagement and development, including a Group-wide intranet;
- recruitment of budgeted resource to deliver planned projects;
- succession plans in place for key roles, which are regularly reviewed;
- undertaking a pay and benefits review to establish greater consistency across the Group and benchmarking externally;
- employee satisfaction surveys including suggestions for improvement;
- investment in modern, inspirational and motivational working environments for employees; and
- the nomination committee undertaking a comprehensive process, in conjunction with an external search firm, to identify a new CEO.

LINK TO STRATEGIC PRIORITIES

1 2 3 6 8

KEY

1 One EMIS Group
2 Deliver financial performance
3 People: communication engagement and development
4 Strategic customer and stakeholder engagement
5 Deliver a "one-system brand and product strategy"
6 Promote customer clinical and operational outcomes
7 Further enhancement of Patient online services
8 Consolidate clinical services provision

E Information governance and cyber security

DESCRIPTION OF RISK

The Group is responsible for hosting over 40 million individual primary care records containing confidential and sensitive personal data.

The Group's systems contribute towards the efficient operation of GP surgeries, hospitals, pharmacies and other healthcare providers through the secure, reliable and accurate processing of such information.

There are significant risks associated with managing and hosting such information, including loss, theft or corruption of data.

The Group recognises that the trust placed in it by the government, by healthcare providers and by private individuals is fundamental to the success of the business. EMIS Group's reputation rests on integrity and the quality of stewardship it applies to such sensitive and valuable data.

Cyber attacks are becoming more common generally, including those targeting healthcare system providers.

The risk of a cyber attack has therefore increased and is likely to remain of concern both to the Group and the market generally.

HOW WE MITIGATE THE RISK

The Group invests heavily in ensuring that the physical and logical controls in place over hardware and software systems are strong.

Mitigating controls in place and actions taken to manage this risk include:

- strong physical controls over building and server room access;
- attainment and maintenance of ISO 27001 certification, including an in-house ISO quality assurance team;
- regular penetration testing and denial of service attack simulations;
- strong information governance culture including NHS-standard training for all employees;
- documented and externally tested business continuity and disaster recovery plans;
- maintenance of duplicate servers at physically separate locations with virtually real-time failover capability; and
- EMIS Web hosted environment virtually within the NHS.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6 7 8

F Clinical safety

DESCRIPTION OF RISK

As a provider of critical IT systems to organisations that provide direct healthcare to patients, and as a direct provider of healthcare itself, the Group is exposed to a range of clinical risks. While it has been successfully managing clinical risk for three decades, the Group has decided to more clearly identify and report on these risks and the systems we have in place to manage them.

There is a risk of clinical harm to patients should EMIS Group IT systems fail to provide accurate, reliable and timely personal information to healthcare professionals; for example, regarding a patient's known allergies, existing prescribed medication or other relevant personal information. These risks may be amplified where Group systems interoperate with third party applications.

For pharmacy software products, there are similar risks around incorrect dosages and labelling of products dispensed.

The Group is also exposed to direct clinical risk of causing harm to patients where it is the provider of clinical services, for example in the ophthalmic imaging services and diabetic eye screening programmes (DESPs) operated by EMIS Care.

HOW WE MITIGATE THE RISK

Most clinical risks are allied to other principal risks; for example, software development, recruitment and information governance, failures in any of these could lead to clinical harm to patients. Actions taken to manage general risks in these areas are noted under the relevant sections. Mitigating actions specifically pertaining to clinical risk management are noted here:

- the Chief Medical Officer and a network of clinical safety officers in place with responsibility for clinical safety across the Group;
- policies and procedures designed to meet the regulatory requirements of NHS Digital's information standards SCCI0129 or SCCI0160 (depending upon the nature of the business involved);
- accredited clinicians involved in software development procedures to identify and mitigate potential clinical risks in new software releases or updates. Clinical sign-off is required for all releases and new implementations;
- qualified technicians and expert clinical leadership at all DESPs; and
- oversight by external regulators.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 6 7 8

KEY

1. One EMIS Group
2. Deliver financial performance
3. People: communication engagement and development
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7. Further enhancement of Patient online services
8. Consolidate clinical services provision

Another strong year for EMIS Group

EMIS Group has again maintained or grown strong market share positions in every major area of healthcare facilitating the NHS's ongoing connected care strategy.

PRIMARY & COMMUNITY CARE

Revenue up **6%**

Adjusted operating profit up **9%**

COMMUNITY PHARMACY

Revenue up **7%**

Adjusted operating profit up **15%**

SECONDARY & SPECIALIST CARE

Revenue down **10%**

Adjusted operating profit down **21%**

Chief Executive's overview

Overall, performance for the year was in line with the Board's expectations with strong profitability and cash generation. The Group continues to benefit from strong revenue visibility, loyal customers, quality products, leading and growing market shares and a solid order book and pipeline.

The gap continues to widen between the health demands of a growing population with more long term conditions year-on-year and a governmental desire to slow the rate of growth in NHS funding. Perhaps counter-intuitively the development of Sustainability and Transformation Plans (STPs) – intended to show how the NHS and local authorities will bridge that gap by remodelling healthcare and later merging health and social care – has caused another hiatus in the deployment of planned funds for NHS IT transformation.

In 2016 the Group took appropriate steps in relation to reducing the cost base in Secondary Care and in harmonising employee pay and conditions. 2017 will see an internal transformation to anticipate the NHS's sharing of back-office functions and the acceleration in the creation of "new models of care". To that end, the Group's Primary & Community and Secondary Care businesses will be combined and integrated by the end of Q1 2017. The Group is also investing in the building of a patient-centric digital platform based on its existing Patient.info business.

The Group has continued to demonstrate its commitment to and alignment with NHS strategy, whether stated centrally through the Wachter Report or locally through the STPs, which continues to endorse the facilitation of connected patient-centric care through the mobilisation of health and care related data using integrated and interoperable software systems. EMIS Group remains at the forefront of this market.

Operational review

EMIS Group is a leading provider of UK healthcare software, information technology and related services. It has again maintained or grown strong market share positions in every major area of healthcare facilitating the NHS's ongoing connected care strategy across primary, community, secondary and specialist healthcare and community pharmacy.

PRIMARY & COMMUNITY CARE

EMIS Health – Primary Care (EHPC)

Primary Care maintained its record of steady growth from a loyal customer base, with almost three-quarters of the Group's English GP practices being EMIS Health users for over ten years. EMIS Health's leading market share of 55% (2015: 55%) was increasingly supported by a local NHS strategy to consolidate clinical management systems and the number of 100% EHPC Clinical Commissioning Groups (CCGs) again rose from 46 to 51. This common strategy creates a platform for STPs to seamlessly connect primary, community and other healthcare data.

The estate-wide deployment and utilisation of nationally-created electronic services in England, such as electronic prescriptions and the transfer of GP records, reached an all-time high for EMIS Health, further facilitating connected care that involves primary care professionals. These NHS national programmes also include Patient Access, with 5.1 million citizens registered to interact with GP services online by the end of 2016.

In Northern Ireland, implementation of EMIS Web for primary care began slowly, with the first pilot sites live on 16 August 2016, however the roll-out is expected to be completed in 2017. In Scotland, EMIS Web is being offered in place of the Group's older software and pre-procurement engagement has begun for likely implementation in 2018. In Wales, re-procurement of the primary care framework agreement has begun although it is worth noting that existing EMIS Web agreements will continue until 2019–2020.

"EMIS Health's leading market share of 55% (2015: 55%) was increasingly supported by a local NHS strategy to consolidate clinical management systems and the number of 100% EHPC Clinical Commissioning Groups (CCGs) again rose from 46 to 51."

PRIMARY & COMMUNITY CARE

Better diabetes care

Better diabetes care for thousands with information prescriptions

GPs and practice nurses across the country are improving care for thousands of patients with type 2 diabetes, thanks to a partnership between EMIS Health and Diabetes UK. Diabetes UK has developed information prescriptions that not only alert clinicians to key information on their patients' condition during consultations, but give patients the tailored information they need to self-manage at home. Clinicians say the system is helping to improve care and empowering patients.

Practice nurse Nicola Milne from Northenden Group Practice who manages almost 700 patients with type 2 diabetes said: "When you are consulting with someone with diabetes who feels well it can be difficult to explain to them the potential damage that could be happening within their bodies as a result of poorly controlled conditions such as high blood pressure, raised cholesterol and a high HbA1c."

Information and advice for patients

"It is fantastic to be able to have a tool that gives patients accurate information on their condition, alongside an easy to understand graphic of what could happen if their condition isn't managed well.

"The information prescription gives the person with diabetes the information and advice to self-manage their condition and set goals, which we can discuss together. Presenting it as written information, with the backing of Diabetes UK, gives it added credibility and the link to the Diabetes UK website is also included so it opens up a wealth of information to patients. They help patients to better understand their condition and actively manage it."

Future plans

Nicola, who has been a practice nurse for 14 years and is also a Queen's Nurse, is on the Diabetes UK working group that is helping to develop the information prescriptions with EMIS Health. She's excited about future developments: "We are now looking at diabetes and pregnancy. This information prescription is for women with diabetes who are of child bearing age. With the system alert function, we can give appropriate pre-conception advice and ensure that if a woman is planning a pregnancy then appropriate care and advice is given. Information prescriptions really are helping us to provide better diabetes care for thousands of people."

PRIMARY & COMMUNITY CARE CONTINUED

EMIS Health – Child Community & Mental Health (CCMH)

CCMH market share grew to 16% (2015: 12%), exceeding the Group's internal target despite the general sluggishness of the market as a whole.

A number of previously unannounced material contract wins were secured in the year including:

- Tameside Hospital NHS Foundation Trust – Community
- Isle of Man Department of Health and Social Care – Community
- First Community Health & Care – Community and Mental Health
- Central Manchester University Hospitals NHS Foundation Trust – Community and Mental Health

Including those previously announced 2016 wins had an aggregate total contract value in excess of £11m with a strong pipeline of opportunities in 2017 as former National Programme for IT CCMH contracts continue to be re-procured. Two material CCMH contracts (Bridgewater Community Healthcare and Central Surrey) have already been secured in early 2017.

The CCMH team has secured 38 CCGs where EMIS Health is the sole supplier in primary care as well as having a strong presence in CCMH. This further supports the Group's strategy of helping delivery of connected care.

> "Patient.info is already the UK's leading independent provider to consumers of medical and well-being information with 18.3m unique monthly visitors (2015: 11.5m) and advertising revenues of £2.1m (2015: £1.7m)."

Egton - ICT infrastructure, engineering, and non-clinical software

Egton performed well, providing a range of software, hardware and services, including health administration, compliance software and GP practice websites.

On 22 December 2016 Egton extended the Group's capability into social care through the acquisition of Intrelate for £0.8m net of cash acquired. The business was immediately integrated within Egton to provide its Carista administrative software in social care. Carista is a mobile software platform helping carers (paid and unpaid) to plan, monitor, manage and measure social care outcomes. This extends the Group's capability into directly helping deliver integrated health and social care.

Another exciting area of growth for Egton in 2017 will be the securing and implementation of CCG-funded NHS WiFi in GP practices, with a current order book of £1.8m.

Patient – patient-centric medical and well-being information/transactional services

Patient.info is already the UK's leading independent provider to consumers of medical and well-being information with 18.3m unique monthly visitors (2015: 11.5m) and advertising revenues of £2.1m (2015: £1.7m). Patient helps people proactively manage their own health and wellbeing often in a "pre-primary care" setting.

The number of visitors to Patient has grown strongly as planned in 2016 especially from international visitors who at the end of 2016 accounted for 74% of the total.

To accelerate Patient's growth and ensure its consumer focus Jason Keane joined Patient as Digital CEO in October 2016. He has extensive digital media experience in a number of senior roles including at Saffron Digital, Universal Networks Interactive, and Yahoo! Answers. Following his appointment, work immediately began to optimise Patient's existing media business and inventory including new site design, an improved content management system, initial changes to the user experience and user interface, and ongoing improvements to the organic search position.

On 1 January 2017 Patient became an independent legal entity with a plan to grow its publishing/media business and to expand into a market-place e-commerce platform connecting Patient's global audience to a network of digital healthcare services. A detailed business plan is in place for an investment of up to £7m over the next two years against appropriate performance milestones. This is mainly for the people costs to deliver the media content and platform environment needed to drive growth over the next five years toward a targeted annual revenue of £50m.

COMMUNITY PHARMACY

EMIS Health – Community Pharmacy (EHCP)

EHCP, the provider of the UK's single most widely used community pharmacy dispensary management system, delivered strong results. It also continued to prepare for future market share growth over the next 18 months (from 37% at the year end to approximately 50% by 2018) through the implementation of the agreement with AAH Pharmaceuticals/Lloyds.

The Group's next generation pharmacy dispensary management product, ProScript Connect, has now been accredited in England, Scotland, and Wales. As well as having a pipeline of opportunities in the independent pharmacy space, ProScript Connect had been installed in 25 independent pharmacies by the end of 2016. Implementation continues mainly to be done remotely, to minimise resource requirements at each location and enable "out of hours" upgrades where appropriate, while more complex sites, for example those with robotic systems, are likely to require on-site attendance.

The business is also preparing for implementation in the Lloyds estate. The first three ProScript Connect pilot sites in the AAH independent estate also went live by the end of December and are performing in line with expectations.

The total dispensary management estate size grew to 5,091 sites (2015: 4,910 sites) through incremental gains from competitors as well as growth of existing customers. After the year end, EHCP secured a six year contract with a total contract value of £1.4m with a further supermarket customer.

Commercial and technical models are being considered following piloting of EMIS Web for community pharmacy. This will enable pharmacies to diversify into extended primary care services (for example smoking cessation, influenza injections) and monitoring of long term conditions.

> "Community Pharmacy continued to prepare for future market share growth over the next 18 months (from 37% at the year end to approximately 50% by 2018) through the implementation of the agreement with AAH Pharmaceuticals/Lloyds."

COMMUNITY PHARMACY

Faster, more integrated working with ProScript Connect

A busy pharmacy in North West London is offering a faster, more integrated service to customers thanks to EMIS Health's ProScript Connect.

Healthways Pharmacy in Pinner, which has used ProScript for around 20 years, switched to the new generation ProScript Connect dispensary management system in November 2016.

Pharmacist Dhimant Patel said the business, which has over 75% turnover in NHS services, is already benefiting from the new system.

"ProScript Connect downloads prescriptions from the NHS Spine very quickly, which means patients are getting their medication more speedily. We can multitask, filling prescriptions while doing day to day work in the background.

"This is very important to us, as the pharmacy is right by a Tube station, serving a big transient population. It means that not only can we offer a speedy, seamless service to customers, but nobody has to stay behind at the end of the day to catch up on administration.

"As the system is also more integrated, it helps us to enhance our professional role in line with NHS recommendations. Everything is linked to the patient's name, and the new pharmacy services are built in. So for example, ProScript Connect prompts us if a patient is due to have a consultation on the New Medicines Service (NMS) or a Medicines Use Review (MUR) and I can ask them there and then if they want one."

Dhimant praised the technical team at EMIS Health for their help during the switch to the new system and their continued support.

"We continued an uninterrupted service to patients on the morning of the switchover. We were very well supported by the technical team, something that gave us confidence in the new system. There is a dedicated, named team for ProScript Connect, including a trained pharmacist who understands our terminology when we ring with a query. I would definitely recommend ProScript Connect to other pharmacies. It is a fast, stable, intuitive system backed by a very good support team."

SECONDARY & SPECIALIST CARE

EMIS Health – Secondary Care (EHSC)

EHSC performed largely in line with expectations following the various cost-improvement measures taken in the first half of 2016 and taking into account the sluggishness of the NHS secondary care market for mid-sized procurements. In addition, the transfer of revenues and profits associated with the ePEX (acute mental health) product to EHPC and the lack of one-off implementation revenues compared with 2015 meant that performance in EHSC was held back. Until the effects of the STPs become clearer, including increased merger activity between hospital trusts, the NHS procurement environment will continue to be difficult to predict. The Wachter Report, while strongly supporting investment in the digitisation of secondary care, also served to slow small to mid-sized procurements in favour of predominantly large-scale implementations in Global Digital Exemplars (GDEs).

Despite that, as previously announced, EHSC:

- was awarded a contract for a Patient Administration System in Northampton in April 2016 with a total contract value of £6.7m;
- in association with the UK's other major hospital pharmacy software provider, has created an electronic procurement hub to enable 75% of UK hospitals to replace the manual processing of home care pharmacy; and
- is one of two suppliers on the NHS Scotland Hospital Electronic Prescribing and Medicines Administration framework, worth £15m over two years.

The strategic decision, announced on 15 February 2016, for EHSC to focus on core markets and products with a related reduction in costs and staff numbers was largely implemented in the UK and in Kenya by the end of the first half.

> "EMIS Health is working as the principal supplier with University Hospitals of Southampton NHS Foundation Trust as they formulate their plan as a GDE. In September 2016 NHS England announced £10m funding for each of twelve initial GDEs to help them become paperless by 2020."

During 2017, EHSC is also expected to benefit from an NHS England initiative to centrally fund upgrades to the latest version of EMIS Health's hospital pharmacy product. In addition, EMIS Health is working as the principal supplier with University Hospitals of Southampton NHS Foundation Trust as they formulate their plan as a GDE. In September 2016 NHS England announced £10m funding for each of twelve initial GDEs to help them become paperless by 2020. Funding and contracts are expected to be released in the second half of 2017. A "Fast Follower" programme is also expected to be announced allowing other NHS Trusts to access a smaller pot of centrally matched funding for adopting the technologies pioneered by the GDEs. EMIS Health is directly engaged with a further three GDEs and indirectly involved, as a supporting supplier, with three more.

EMIS Health - Specialist & Care (EHS&C)

EMIS Health Specialist has maintained its position as the leading software provider in English diabetic retinopathy screening with a 77% market share (2015: 79%).

Public Health England has initiated a procurement process to develop a national screening platform intended to achieve standardised local programme operation through common IT system design and core functionality. Although intended to begin with diabetic eye screening, the platform is designed to encompass all systematic screening services. Should the procurement conclude it would provide an opportunity for EHS&C to secure the rest of the English diabetic eye screening market.

EMIS Care remains the clear market leader in outsourced diabetic eye screening and ophthalmology imaging services with an 18% market share (2015: 19%). In 2016 EMIS Care was awarded further contracts for screening provision in:

- Lancashire Lot 1 (East Lancashire & Preston – from the NHS)*
- Lancashire Lot 2 (North Lancashire & Fylde Coast – from the NHS)*
- West Yorkshire Lot 2 (Bradford, Huddersfield & Calderdale – from the NHS, EMIS Care and 1st Retinal Screen)*
- Bath, Swindon and Wiltshire (from the NHS and Virgin Care)
- Surrey (from Virgin Care)
- Plymouth (from the NHS)

* Indicates awards previously announced.

These mainly three year initial term contracts, with an initial total contract value of £19m, will see EMIS Care's market share rise to 26%. Some of the new contracts were implemented during the second half of 2016 and the remainder will be implemented in the first half of 2017.

As previously announced, this unprecedented level of tender and implementation activity has held back and will continue to hold back financial performance through sub-optimal cost bases and operational practices and the incurring of implementation costs. This is especially so in the case of contracts previously operated by the NHS. As operational efficiencies are delivered over the life of the contracts, the division is building the foundations necessary to improve the profit profile. Pending that improvement, the Board has decided to recognise an impairment charge of £4.6m relating to the goodwill of the EMIS Care (Medical Imaging) business to reflect the delay in contribution created by those additional costs.

SECONDARY & SPECIALIST CARE

Nottinghamshire Healthcare

Making informed decisions using reports created in minutes at Nottinghamshire Healthcare.

Business intelligence – from ward to board

Nottinghamshire Healthcare NHS Foundation Trust is producing faster, more valuable reports using automated systems from EMIS Health. It provides the information required to help improve care and decision making. It helps monitor service performance, patient care and resources, from ward to board level.

Manually producing reports from all areas of the Trust was resource intensive and time consuming.

Reports now produced in minutes

Andy Milsom, project manager, said: "Previously, if clinicians wanted data on how their service was performing, a bespoke report would be built manually – finding data from a number of separate systems and combining it. It could take a few days to produce bespoke reports, but now it can be done in a matter of minutes. This helps our clinical and managerial staff get access to their information quicker, helping them make faster, safer decisions when it comes to patient care and productivity."

Close partnership working with the Trust's BI team meant that once the project was delivered from EMIS Health, the BI team had the in-house capability to continue developing the solution to meet the evolving demands of the Trust and incorporate additional data sources.

Gaining intelligence and insight

Andy Milsom explained: "As well as the increased skills in the BI team, our analysts will be able to replace many of the 100 ad-hoc requests for bespoke reports and other outputs they receive each month with interactive self-service dashboards, allowing users to gain valuable intelligence and insight themselves as they explore and interrogate the data."

Nottinghamshire Healthcare is now able to quickly and easily build its own reports and drill down into the data to really understand performance.

"At Board level, managers will be able to see summaries and reports on how the service as a whole is performing, presented in a way that makes the data easy to understand and interpret. At ward level, ward managers will see what is happening on their wards. They will all access the same data in a way tailored to their needs."

INTEGRATED CARE

Ayrshire Hospital

Reviewing patient health with all the details to hand at Ayrshire Hospital.

Electronic records enable safer hospital care for Ayrshire patients

A multidisciplinary team is giving safer, more efficient care to vulnerable patients in an Ayrshire hospital, with the help of EMIS Health technology.

More than 50 staff – including doctors, nurses and allied health professionals such as physiotherapists – have switched from paper records to EMIS Web.

It has helped transform patient care, and connected hospital and community staff, who can securely view each other's records. Just six months down the line, they have reduced the average length of stay by 12 days and cared for 30% more patients.

The aim of the ward, which treats up to 300 frail patients a year is to support earlier discharge, while freeing up acute beds for those who need them. It admits hospital patients who need further care before going home, and this year will also take people in the community who need non-acute care outside the home.

More streamlined care

Dr Colin Jamieson was on the team of GPs providing medical cover when the ward first opened. He said: "Moving from paper to electronic records on the ward was a real eye-opener. The process of arranging referrals and transfers of patients is a lot more streamlined, and EMIS Web has helped improve care on the ward."

Charge nurse Ailsa McCallum said: "EMIS Web is a vital cog in the wheel here. Any member of the team can add their notes to the electronic record, and everybody in the team can see them. Nursing assistants, who are the backbone of the ward, are contributing to the records for the first time."

Providing safer care and saving time

"We can see the community team's records, and they can see ours. Because you can see real-time information in one place, care is safer. We can spot immediately if a patient's condition is deteriorating. We are also saving time, as there is no more trawling through pages of paper records."

The next step on the ward will be secure record sharing with 18 local GP practices – subject to robust data sharing agreements – which will allow them to see the patient's complete medical history to enable even more informed care.

Integrated care

The Group Continued to make progress during the year in integrating health and social care by connecting its own and third party products helping the NHS to facilitate faster, better, cheaper care. The Group's Partner programme reached 80 participating suppliers, generating over £5m in revenue in 2016 for the Primary Care business.

The publication of STPs in June 2016 and the subsequent debate and activity showed the clearest sign yet that the NHS is actively embracing integrated care especially with a primary/community care focus. This not only reinforces EMIS Group's strategy in existing markets but also provides new market opportunities in the short and medium term. Those opportunities include in-hospital and out-of-hospital markets like urgent and emergency care, out of hours and medicines management.

Internal reorganisation

In December 2016, the Group began to bring together EHPC and EHSC. This will combine Primary & Community and Secondary Care into a single operating unit under the leadership of Duane Lawrence formerly managing director of secondary care. This is intended to align the Group with the NHS's need to deliver more integrated care between hospitals, GP practices, and community services and optimise the Group's cost base.

A new management structure was designed and the senior management team was established in early January 2017 while collective consultation for other affected staff began in the second week of February. The majority of the integration exercise is expected to be completed by the end of the first quarter of 2017. The exercise is expected to reduce headcount by over 100 people at a cost of around £3.0m and will deliver an estimated in year cost-saving of £3.0m, rising to £4.0m on an annual basis.

Board changes

As announced on 12 December 2016, Chris Spencer, the Group's Chief Executive, intends to retire from his position and from the Board by the end of 2017. The formal search for his successor has already identified a number of credible candidates and interviews are underway. On the same date, although unrelated, the Group also announced the appointment of David Sides as an additional independent non-executive director with effect from 1 January 2017. David is currently CEO of Streamline Health Solutions, a provider of transformational data-driven solutions to healthcare providers, and before that his career included 17 years in senior roles at Cerner Corporation.

Summary and outlook

Overall our businesses have continued to deliver results in line with our expectations. This was despite headwinds created by the NHS funding gap, which resulted in a difficult operating environment for the Group with delays to the pace and level of procurement activity.

We remain clear market leaders in primary care with the further roll-out of EMIS Web ongoing and have once again increased our market share in CCMH. Our new community pharmacy product is now being rolled out into independent pharmacies, pending implementation of the AAH/Lloyds contract that will see our market share grow close to 50%.

Current trading remains in line with the Board's expectations and the outlook is encouraging with strong revenue visibility provided by 81% recurring revenue and solid order books and pipelines across every segment. Structural re-organisation, bringing together Primary Care, CCMH, and Secondary Care, will improve efficiency and better align the Group and its customers. We are looking for growth from the implementation of existing contracts in EMIS Care and Community Pharmacy with further growth opportunities in CCMH, new models of care and Patient.

The NHS's plans to bridge its funding gap continue to cause sluggishness in immediate discretionary procurements. However, that planning process highlights the Group's unique ability to help address the challenges in the NHS.

In light of the proactive operational steps we are taking and our investment in a patient-centred digital platform we remain confident in overcoming short term headwinds and securing a positive outlook in 2017 and beyond.

Chris Spencer
Chief Executive Officer
15 March 2017

Solid financial performance

The Group delivered sustained improvement in all key financial metrics.

In the year ended 31 December 2016, the Group delivered a solid financial performance with sustained improvement in all key financial metrics, despite a more challenging market environment.

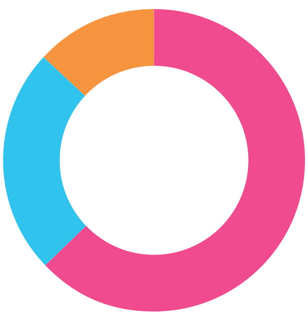
Adjusted operating profit for the year, as set out in the table on page 29, was £38.8m (2015: £36.6m) with statutory operating profit, reduced by exceptional charges for the cost reduction programme and by an impairment charge, at £23.5m (2015: £11.4m). A reconciliation between the operating profit measures is given in the Group statement of comprehensive income.

Segmental performance

Group revenue increased by 2% to £158.7m (2015: £155.9m), including revenue from the 2015 Pinbellcom acquisition in Primary & Community Care of £1.2m (2015: £0.7m).

The revenue growth in the year included varied performance from the Group's segments. The Primary & Community Care business delivered 6% organic revenue growth and 8% organic profit growth, driven by good progress in market share in CCMH, the Partner programme and Patient revenues.

> "Adjusted operating profit increased by 6% to £38.8m (2015: £36.6m). The 6% organic profit growth in the year was delivered by stronger growth in the Primary & Community Care and Community Pharmacy businesses, partly offset by lower than expected results in Specialist Care."



Revenue

- Primary & community care 63%
- Secondary & specialist care 24%
- Community pharmacy 13%

Performance in the Community Pharmacy business was again strong, boosted by some paid-for development work in connection with the new Proscript Connect product, in advance of the accelerated roll-out into the estate being delivered in 2017 and 2018.

Results in the Secondary & Specialist Care segment were behind expectations, with the slowdown in Secondary Care procurements and the transfer of £1.9m mental health revenues to the Primary & Community Care segment resulting in a reduction in revenues overall. However, the actions taken early in the year to address the cost base for the Secondary Care business resulted in an improvement in underlying profitability. In Specialist Care, strong revenue growth was secured with new contracts won by EMIS Care, but profit reduced due to additional costs associated with the implementation of those new contracts in geographical areas previously operated by the NHS. However, focus on delivering operational efficiencies is expected to improve the profit profile over the life of the contracts as described in the operational review, thereby positioning it for stronger financial performance ahead.

Revenue mix

Group recurring revenue, principally licences, maintenance and software support, hosting and other support services, was £128.5m (2015: £123.0m) representing 81% of total revenue (2015: 79%). This high level of recurring revenue and the strength of the Group's customer relationships continue to provide an excellent foundation for the business to invest with confidence in developing future products and services, as well as providing good visibility of future financial performance.

The drivers of revenue change within the Group included the following:

- licences, driven significantly higher to £54.8m (2015: £50.3m), principally as a result of growth in Primary & Community Care, particularly in the Partner programme and Patient, but also with some one-off development revenues in Community Pharmacy;
- maintenance and software support, which increased slightly overall to £38.6m (2015: £37.9m) with growth in CCMH;
- other support services, where the £1.8m year-on-year revenue growth from new contracts won in EMIS Care was more than offset by a reduction in project engineering revenues and lower levels of supporting revenues in Secondary Care and Community Pharmacy, resulting in broadly flat total revenues of £29.3m (2015: £30.6m);
- training, consultancy and implementation, which reduced to £14.6m (2015: £16.1m), with fewer large implementation projects in Secondary Care;
- hosting, which was unchanged at £13.1m (2015: £13.1m), as a result of a reduction in funded hosting asset revenues offset by CCMH hosting growth; and
- hardware revenues, which increased to £8.3m (2015: £7.9m) with higher sales of the EMIS Anywhere mobile product.

Profitability

Adjusted operating profit increased by 6% to £38.8m (2015: £36.6m). The 6% organic profit growth in the year was delivered by stronger growth in the Primary & Community Care and Community Pharmacy businesses, partly offset by lower than expected results in Specialist Care.

The operating margin nonetheless increased to 24.4% (2015: 23.4%) with a strong focus on cost control in staff costs delivering this improvement in the context of a lower pace of revenue growth than in recent years.

Group staff costs increased with staff numbers at the year end increasing to 1,922 (2015: 1,897), including 15 from the Intrelate business acquired at the end of the year. The average headcount increased to 1,875 (2015: 1,863). The increase has been driven by growth in EMIS Care to support the new programmes implemented during the year and the planned expansion of the India-based development team, numbering 128 at the end of 2016, building upon a subcontracted arrangement in place during 2015.

The Group has recognised three exceptional items in arriving at profit before tax in 2016. The first relates to the cost reduction programme carried out during the year. This programme was initially focussed on the Secondary Care business, but was

Selected financial extracts

	2016				2015			
	Primary & Community Care £m	Community Pharmacy £m	Secondary & Specialist Care £m	Total £m	Primary & Community Care £m	Community Pharmacy £m	Secondary & Specialist Care £m	Total £m
Revenue	**99.6**	**21.4**	**37.7**	**158.7**	93.9	20.0	42.0	155.9
Adjusted segmental operating profit	**32.2**	**4.9**	**3.3**	**40.4**	29.6	4.3	4.2	38.1
Group expenses				**(1.6)**				(1.5)
Adjusted operating profit[1]				**38.8**				36.6
Adjusted operating margin	**32.3%**	**22.8%**	**8.7%**	**24.4%**	31.5%	21.2%	10.0%	23.4%

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items.

Profitability continued

expanded to encompass other parts of the Group in response to the more challenging trading conditions which emerged during the year. The programme, which resulted in a charge of £3.6m in the year, delivered an annualised cost saving of £3.0m in 2016, rising to over £5.0m on an annual basis and has directly reduced headcount by 110.

The second, a non-cash charge of £4.6m, relates to the carrying value of goodwill arising on the Medical Imaging (EMIS Care) acquisition and reflects the fact that the business has not yet delivered the financial returns expected when it joined the Group in 2014.

The third is a credit of £1.5m, recognised after operating profit, which relates to the profit realised on the disposal of the Group's minority investment in Pharmacy2U during the year.

After accounting for the operating exceptional items, the capitalisation and amortisation of development costs, and the amortisation of acquired intangibles, statutory operating profit was £23.5m (2015: £11.4m).

Taxation

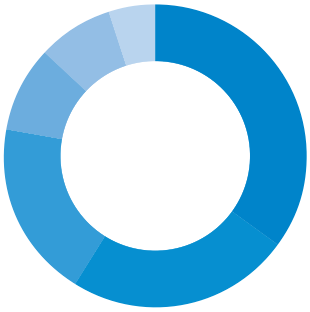
The tax charge for the year of £5.2m (2015: £5.6m) includes a credit of £0.4m, arising from the finalisation of prior years' tax returns. Excluding the credit and a small deferred tax adjustment in respect of the lowering of future tax rates, the effective tax rate for the year was 20.0% (2015: 20.2%) on profit before tax and the non-deductible/taxable exceptional items.

Earnings per share (EPS)

Adjusted basic and diluted EPS increased by 9% to 49.4p and 49.2p respectively (2015: 45.3p and 45.1p). The statutory basic and diluted EPS were 30.4p and 30.3p respectively (2015: 7.2p for both measures).

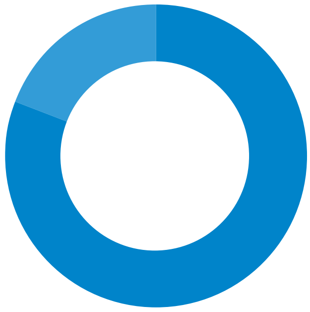
Dividend

Subject to shareholder approval at the Annual General Meeting on 28 April 2017, the Board proposes an increase in the final dividend to 11.7p (2015: 10.6p) per ordinary share, payable on 3 May 2017 to shareholders on the register at the close of business on 31 March 2017. This would make a total dividend of 23.4p (2015: 21.2p) per ordinary share for 2016. This is 10% higher than in the prior year, reflecting the Board's commitment to increasing dividends in line with growth in adjusted EPS and its continued confidence in the Group's prospects.



Revenue analysis

- Licences 35%
- Maintenance & software support 24%
- Other support services 19%
- Training/consultancy/implementation 9%
- Hosting 8%
- Hardware 5%

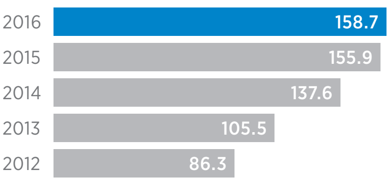


Revenue analysis

- Recurring 81%
- Non-recurring 19%

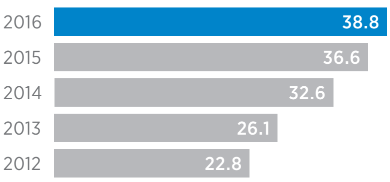
Total revenue

£158.7m **+2%**



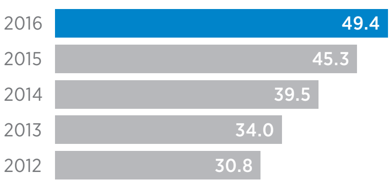
Adjusted operating profit[1]

£38.8m **+6%**



Adjusted EPS[1]

49.4p **+9%**



1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items as set out in the Group statement of comprehensive income on page 72. Earnings per share calculations also adjust for the related tax and non-controlling interest impact.

Cash flow and net debt

The principal movements in net debt were as follows:

	2016 £m	2015 £m
Cash from operations:		
Cash generated from operations	**43.7**	42.7
Less: internal development costs capitalised	**(5.7)**	(6.2)
Net cash generated from operations	**38.0**	36.5
Business combinations	**(3.8)**	(5.2)
Net capital expenditure	**(5.9)**	(7.2)
Transactions in own shares	**0.6**	0.6
Tax	**(7.7)**	(6.9)
Dividends	**(14.0)**	(12.4)
Other	**1.5**	(2.7)
Change in net debt in the year	**8.7**	2.7
Net debt at end of year	**(0.4)**	(9.1)

Net cash generated from operations increased by 4% to £38.0m (2015: £36.5m), with a lower level of working capital outflow compared to the prior year. Net cash from operations is stated after expensing the £3.1m cash cost of the cost reduction programme in the year. On an adjusted basis, adding back this cost, cash flow from operations was 12% higher than in 2015.

The Group completed the acquisition of Intrelate in the year for net cash consideration of £0.8m and also paid £3.0m of contingent consideration in respect of the 2014 Medical Imaging acquisition. There are no outstanding acquisition-related payments on the year end balance sheet.

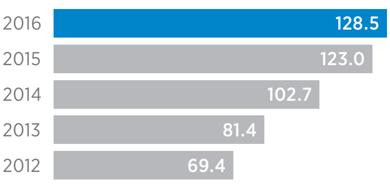
Net cash spent on capital expenditure excluding capitalised development costs reduced to £5.9m (2015: £7.2m). Capital additions in the year included £5.0m on computer equipment (£2.6m of which related to hosting contract assets).

The Group's Employee Benefit Trust received £0.6m (2015: £0.6m) for shares transferred in connection with the Group's share schemes. After tax, dividends and other payments, including the £1.5m receipt relating to the disposal of the Group's minority interest in Pharmacy2U in the year, the total net cash inflow of £8.7m resulted in a year end net debt position of £0.4m (2015: £9.1m), comprised of cash of £4.3m and bank overdraft and debt of £4.7m. At 31 December 2016, the Group had available bank facilities of £18.0m committed until June 2017. The Group has commenced a process to secure replacement facilities to provide flexibility to meet day-to-day working capital requirements, support the Group's organic growth, secure M&A opportunities and provide appropriate levels of cash return to shareholders in line with the Group's capital allocation policy.

Peter Southby
Chief Financial Officer
15 March 2017

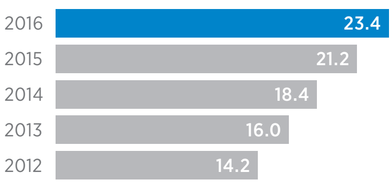
Recurring revenue

£128.5m **+4%**



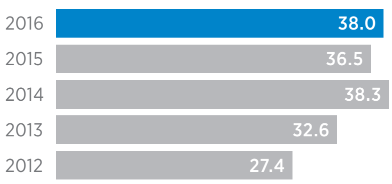
Total dividend for the year

23.4p **+10%**



Cash generated from operations[2]

£38.0m **+4%**



2 Stated after deduction of capitalised development costs of £5.7m (2015: £6.2m) and of the cash impact of the cost reduction programme of £3.1m (2015: nil).

Committed to sustainability

EMIS Group is committed to high ethical standards and contributes to economic development, whilst both improving the delivery of healthcare and the quality of life for our people and the communities within which we work and live.

EMIS Group sustainability policy covers the key areas of:

Ethical business practices

Community	Health and safety	Environmental management	Employees

Ethical business practices

EMIS Group 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 that the welfare of workers and employment conditions within the supply chain meet recognised standards.

The Group has a statement of ethics and a whistleblowing policy, which is reviewed annually by the audit committee. During the year the whistleblowing policy was updated and rolled out to all employees. All employees are made aware of the Bribery Act 2010 and refresher training is carried out annually.

Modern Slavery Act 2015

During the year, and in compliance with the Modern Slavery Act 2015, the Group issued a statement which confirmed its commitment to ensuring that there is no modern slavery or human trafficking (or any other kind of coerced labour) in its supply chains or any part of the business. Work has commenced to identify and assess potential risk areas across the business and the Group will continue to update its policies and procedures as required to ensure it maintains appropriate safeguards in relation to its own business and in respect of its supply chain and partners. Initial indications from the work carried out are that EMIS Group's operations appear to have a low inherent risk of slavery/trafficking primarily due to the skilled nature of the business and the fact that most labour is UK based and in house.

A process has commenced to contact all active suppliers as part of a broader ongoing review of the Company's terms and conditions. As part of this process, confirmation will be sought from suppliers that they are compliant with the Modern Slavery Act. For those companies not compliant, a risk analysis process will be commenced and they will be given the opportunity to comply within an agreed period. Where compliance is not achieved, an alternative supplier will be sourced.

Community

EMIS Group's presence in, and contribution to, local communities around its offices continues to remain important. The Group has supported a wide range of initiatives this year including a range of both national and local charities, from CLIC Sargent and Oxfam, to local elderly and homeless initiatives.

Many colleagues raised funds for their own charitable activities and were actively supported to do this at work with publicity through both the Group intranet and the in-house magazine. In total the Group supported and helped to raise funds for around 30 charities over the year.

The London South 2016 Tough Mudder team, helping to raise funds for Help for Heroes.

Health and safety

Reporting

The EMIS Group Board receives reports twice a year on environmental and health and safety compliance across the Group.

Health and safety is a centralised Group Services function with responsibility for day-to-day activities in each business. During the year, audits of all policies and procedures were undertaken along with a managed roll-out of Group policies through an online system which records compliance by individuals to ensure a consistent Environmental and Health and Safety approach across the Group.

Training

All new starters receive health and safety induction training and existing staff have all received refresher training. A total of 1,462 training modules were completed during the year. In addition, 268 members of staff have attended instructor-led training sessions. Further modules will be released throughout 2017, if required, through the online system, which was introduced during 2016.

Accidents and incidents

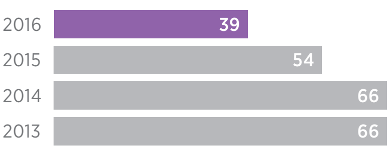
Information from any reported accidents is collated from across the Group. There was a 29% reduction in accidents and incidents in 2016.

There was one RIDDOR accident reported across the Group in 2016, compared to four in 2015. Reviews of the risk assessment process and the type of accidents and incidents that occurred during the year were carried out.

Work has continued to encourage company vehicle drivers to undertake advanced classroom-based and in-car driver training, and to work with our insurers to improve the standard of driving and reduce the number of motor accidents.

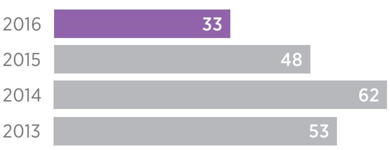
Accidents and incidents (excluding driver accidents)

39



Driver accidents

33



Environmental management

Accreditations

We continue to recognise the importance of protecting the environment and mitigating the impact of the Group's activities.

EMIS Group has established an environmental management system that provides a framework for managing and reducing the Group's environmental impacts and establishes programmes to help achieve our environmental objectives as part of the continual improvement process. Following certification of the management system ISO 14001:2004 in 2014 and the continued development of the environmental management system, the Group will transition to the updated ISO 14001:2015 by December 2017.

A three-year plan was put in place in 2015, with six-monthly surveillance visits planned across the EMIS Group to ensure that compliance and that continual improvement is made against the set objectives and targets.

Three key areas remain:

- utility usage;
- waste; and
- travel.

Utility usage

Baseline data across the Group was recorded in 2016 and targets have been set to continue to reduce usage during 2017.

EMIS Group is now compliant with Article 8 (4-6) of the EU Energy Efficiency Directive (2012/2/EU).

Waste

The Group disposed of 20.38 tonnes of IT waste which was a decrease of 63% from the previous year. This reflects the completion of a project where the Group disposed of IT waste on behalf of its customers.

CO_2 emissions

Vehicles available to staff have a CO_2 emissions average of 112g/km (2015: 112g/km).

Video conferencing facilities have been installed across the Group and targets established to further reduce business travel by encouraging mobile working, as well as offering the 'cycle to work' scheme.

> "EMIS Group has established an environmental management system that provides a framework for managing and reducing the Group's environment impact."

Sustainability policy continued

> The work our people do is important not only to the business, but to society as a whole, as the solutions we create and the services we provide help to improve patient lives. Supporting our people to do this incredible work is essential so we have introduced a fair and competitive deal to recognise their efforts, and to provide greater equality throughout the Group. We will continue to build on this in 2017, so that all employees feel valued and rewarded for the work they do.

Nicola Cliffe
People Director

Employees

People strategy

2016 saw the development of the Group's people strategy. The aim is to foster passion and engagement by supporting and developing employees to achieve, learn and grow at EMIS Group. It outlines its commitment to employees through: offering a fair and competitive deal; bringing in the best talent; creating a learning organisation; doing the basics brilliantly; providing compelling communications; caring for people; and contributing to local communities.

Employee feedback (Your Say)

A second survey was carried out across the whole Group for all employees to have their say about what it feels like to work for EMIS Group – "Your Say". Results improved year on year and engagement scores increased with 78% of colleagues being happy at work and 87% proud of what the Group does.

We improved the focus on internal communications with the intranet, the internal magazine "Link" and the "Town Hall" events becoming trusted sources of information.

Across the Group, action plans have been created for each business and department; focus groups and champion networks have worked together to discuss how they can drive employee engagement and work together to promote a positive and empowered working environment.

Equality and diversity

Equality and diversity continue to be very important to the Group and it recognises the benefits a diverse workforce brings to the business. To build on the foundations already in place, the Group plans to promote equality and diversity in 2017 by making this one of the "vital few" priorities. As the Group continues to create a culture of equal opportunities, it will ensure all colleagues are aware of the practices in place through updated people policies, and will monitor the effectiveness. It is the Group's intention to be a great place to work, with teams that have a diverse blend of knowledge, skills and experience.

A fair and competitive deal

Following the Group's growth via acquisition, colleagues fed back for the last two years that they would like to see a fairer company in relation to pay and benefits. As a consequence, a review was completed in 2016. In conjunction with Hay Group, all job roles within scope were evaluated and colleagues were given the option to accept a new standardised contract that ensures all colleagues in equivalent roles have the same terms and conditions. Of those colleagues, 95% voluntarily accepted their new contract, with many seeing increased benefits as a result.

Employee benefits

A new benefits portal for all employees was created during the year delivering an enhanced suite of new benefits for colleagues around the Group. Employees now have access to a range of flexible benefits through this portal including: buying and selling holidays, car leasing, childcare vouchers, the opportunity to increase pension contributions and life cover.

A learning organisation

Continuing to deliver on the Group's commitment to develop people, both job-specific and behavioural training have been implemented during the year, which built on the platform created in 2015.

The Group invested in an online learning portal called Virtual Ashridge, available to everyone in EMIS Group. Staff can use this portal to access resources which will support their personal development, positive behaviours (related to our values in action) and knowledge. This learning portal supports the new personal development framework called Driving Performance, which will launch in 2017.

Nearly two-thirds of the Group's managers, over 300, have started an internal management course, "Leading the EMIS Group Way". This training programme is aimed at equipping managers with skills such as performance management, influencing styles and communication.

A number of employees have gained NVQ qualifications across the Group and this will continue throughout 2017. The apprenticeship scheme continued with several graduates from the scheme being employed on a permanent basis. The Group continues to support local communities by offering work experience placements across a variety of Group departments.

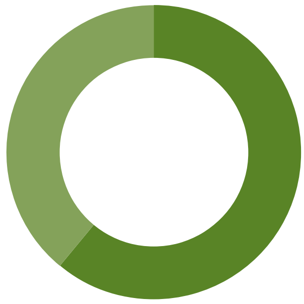
Pension schemes

95% of all employees are now members of a company pension scheme. New employees are auto-enrolled into their relevant scheme with the contribution rates the Group offers ahead of the minimum requirements. EMIS Health Specialist and EMIS Care, the last parts of the Group to implement pension arrangements, started auto-enrolment in August 2016 and all colleagues have joined their schemes.

The Group has a phased approach to pension contributions and by April 2019 pension contributions will be a minimum of 9% (4.5% employee and 4.5% employer) rising to 10% by April 2020 (5% employee and 5% employer).

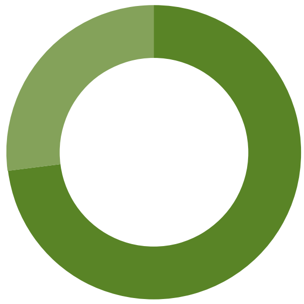
Share incentive scheme

The Share Incentive Plan (SIP) continues to be offered to all employees with over twelve months' service. At the end of 2016, 1,004 employees from across the Group were shareholders in the SIP.



All employees

- Male 61%
- Female 39%



Management (including directors)[1]

- Male 73%
- Female 27%

1 Directors and management as defined by EMIS Group.

Board of Directors

Mike O'Leary
Non-executive Chairman

APPOINTED
March 2011

BOARD COMMITTEES
A R N

EXTERNAL APPOINTMENTS AND MEMBERSHIPS
Non-executive director of Epwin Group plc

EXPERIENCE
Mike's public company main board experience dates back to 1987. He has served AIM-listed, FTSE 250 and FTSE 100 companies during that time in a variety of markets, mostly with a tech focus. He has extensive experience of running global operations and a strong background in the IT industry, as well as an intimate association with the UK and international healthcare sectors. Mike has managed a healthcare division in the US which supplied software and services to over 70,000 primary care physicians. He also has experience of enterprise acute care and departmental solutions in the healthcare sector.

Mike's previous roles have included joint chief operating officer of Misys plc; chief executive of healthcare and insurance divisions of Misys plc; chairman of ACT Medisys; chief executive of Huon Corporation; chief executive of Marlborough Stirling plc; chairman of Digital Healthcare Ltd; and non-executive director of Headlam Group plc.

Chris Spencer
Chief Executive Officer

APPOINTED
July 2013

BOARD COMMITTEES
None

EXTERNAL APPOINTMENTS AND MEMBERSHIPS
Chartered Management Institute (Fellow)

Society for Computers and Law

Law Society of England and Wales

Chartered Institute of Patent Agents (Associate)

EXPERIENCE
Chris has nearly four decades of experience of general management, leadership and software (specification, design, development, project management, implementation, marketing and sales) within the healthcare, legal and educational sectors, both as a founder of his own companies and a senior manager in established companies.

His roles at EMIS Group since joining in 1999 include Commercial Development Director, Group Legal Counsel, Chief Administrative Officer and CEO.

Chris was previously general manager and head of IT at Markgraaf Patents Ltd; founder shareholder and director of software house Solicitec Ltd; and managing partner at Emsley Collins (solicitors).

Peter Southby
Chief Financial Officer

APPOINTED
October 2012

BOARD COMMITTEES
None

EXTERNAL APPOINTMENTS AND MEMBERSHIPS
Institute of Chartered Accountants in England and Wales (Fellow)

EXPERIENCE
Peter has over 20 years of experience in finance, mainly in a public company environment, including ten years at board level. He has led numerous corporate transactions including fundraising and acquisitions. His experience has given him an in-depth knowledge of strategy across multiple industry sectors with a particular focus on support services. Peter also has lead responsibility for a number of shared service functions.

Peter was formerly financial director at ENER-G plc; finance director at Augean plc; and has held senior financial positions at White Young Green plc and Leeds United plc, having started his career at Arthur Andersen.

Robin Taylor
Senior Independent Non-executive Director

APPOINTED
March 2010

BOARD COMMITTEES
A R N

EXTERNAL APPOINTMENTS AND MEMBERSHIPS
Non-executive director of Fusionex International plc

Non-executive director of FDM Group plc

Institute of Chartered Accountants of Scotland

EXPERIENCE
Robin joined EMIS Group as Senior Independent Non-executive Director and Chair of the audit committee on 1 March 2010 and brings many years' experience as a plc director. Robin has held a variety of financial and general management roles in both Europe and North America. He has experience of financial reporting, financing, transactions and risk management.

Robin's previous roles include chief financial officer of Intec Telecom Systems plc; chief financial officer of ITNET plc; chief financial officer of JBA Holdings plc; and non-executive director of Phoenix IT Group plc.

Andy McKeon
Independent Non-executive Director

APPOINTED
September 2015 (having previously served on the Board between February 2013 and April 2015)

BOARD COMMITTEES
A R N

EXTERNAL APPOINTMENTS AND MEMBERSHIPS

Chairman of the Nuffield Trust

Vice-chair at the National Institute for Health and Care Excellence (NICE)

EXPERIENCE

Andy's extensive knowledge of the NHS and experience in shaping health policy add invaluable expertise to the Board discussions. He is an advocate for change which benefits patients. The Board believes Andy brings an independent view and is well suited to the chairmanship of the remuneration committee.

Andy was formerly interim chief executive of the Nuffield Trust; managing director, Health at the Audit Commission; departmental board member at the Department of Health director general responsible for policy and planning; head of primary care. Department of Health; deputy chief executive of the Barts and London NHS Trust; and adjunct professor of the Institute of Global Health Innovation, Imperial College London.

Kevin Boyd
Independent Non-executive Director

APPOINTED
May 2014

BOARD COMMITTEES
A R N

EXTERNAL APPOINTMENTS AND MEMBERSHIPS

Group finance director at Spirax-Sarco Engineering plc

Institute of Chartered Accountants in England and Wales (Fellow)

Institution of Engineering and Technology (Fellow)

EXPERIENCE

As a current FTSE 250 group finance director, Kevin brings real-time financial expertise and software systems knowledge to the Board. Together with Kevin's experience of running complex businesses and corporate transactions, the Board considers his financial and investor relations experience to be of particular value to the Board.

Kevin was previously group finance director at Oxford Instruments plc; group finance director at Radstone Technology plc; and finance director at Siroyan Ltd, and has held senior financial positions at TI Group plc.

David Sides
Independent Non-executive Director

APPOINTED
January 2017

BOARD COMMITTEES
A R N

EXTERNAL APPOINTMENTS AND MEMBERSHIPS

President and CEO of Streamline Health Inc.

American College of Healthcare Executives (Fellow)

EXPERIENCE

David is the president and CEO of Streamline Health Inc. a Nasdaq-listed company. Prior to joining Streamline Health, David was CEO of iMDSoft Inc., a provider of clinical information systems and electronic medical records for critical, perioperative and acute care organisations.

David previously worked at Cerner Corporation, serving as the managing director of Cerner UK & Ireland, and later as senior vice president worldwide consulting. He led Cerner's professional services in 24 countries and was accountable for every implementation and all consulting work carried out by Cerner.

COMMITTEE MEMBERSHIP

- A Audit committee
- R Remuneration committee
- N Nomination committee
- ● Chairman of committee

Corporate governance

MIKE O'LEARY, CHAIRMAN

Chairman's introduction to corporate governance

Dear Shareholder

On behalf of the Board I am pleased to present the EMIS Group plc corporate governance report for the year ended 31 December 2016. The Company remains committed to high standards of corporate governance and the Board acknowledges the importance of the principles set out in the 2016 UK Corporate Governance Code ("the Code") published by the Financial Reporting Council.

As your Chairman I am responsible for ensuring that the Board operates within a sound governance framework, based on best practice principles suitable for a company quoted on the Alternative Investment Market (AIM). Governance arrangements are reviewed on an ongoing basis to ensure that they remain fit for purpose. As the Company operates within the connected healthcare software and services sector, it is increasingly important the focus remains on the safety and security of the Company as well as balancing the interests of all our stakeholders.

The following report outlines how the Company has applied the principles of the Code. The Board understands the importance of ensuring that there is a strong governance framework in place which underpins the Company's ability to achieve its strategic goals. Although compliance with the Code is not mandatory for companies admitted to AIM, the Company continues to establish a framework of policies and procedures designed to comply with the Code as far as is reasonably practicable and appropriate for a company of its size and complexity.

As Chairman I undertake an annual internal review of the performance of the Board and each Director as part of the overall effectiveness review. The Board considers the current balance of skills, experience, independence and knowledge and assesses whether it remains appropriate for the business.

This year's review concluded that the Board continues to operate effectively and in an open and constructive manner where challenge is actively encouraged. An important part of my role is to ensure that the Board collectively has the right mix of skills, diversity and independence to provide an appropriate level of oversight of the business. Following a review of the Board composition carried out by the nomination committee, the Board decided to recruit an additional Non-executive Director during the year.

On 12 December 2016, it was announced that Chris Spencer had indicated his intention to retire from his position as Chief Executive Officer and from the Board by the end of 2017. A formal search has begun for his successor. Chris has been a pivotal member of EMIS Group's leadership team, and a major contributor at both a strategic and operational level, since he joined the Group in 1999. He served as Chief Administrative Officer, as well as roles including Group Counsel and Company Secretary, prior to being appointed as Chief Executive Officer in July 2013.

At the same time, it was announced that David Sides had joined the Board as a Non-executive Director, further strengthening the Board's composition, with effect from 1 January 2017. David brings with him a wealth of experience of the healthcare industry gained on a global basis. Further details of his skills and experience can be found in the Board of Directors section on page 37. The process adopted for his appointment is set out in the report of the nomination committee.

Directors are subject to election or re-election by shareholders at each Annual General Meeting (AGM). The nomination committee considers that all the Directors continue to be effective and demonstrate an appropriate commitment to their roles.

The Board has extensive operational experience with many years of detailed knowledge of the healthcare sector, both in the UK and overseas. This knowledge is supplemented by significant financial, transactional, risk management and public company experience.

All members of the Board agreed that appropriate processes were in place for setting the strategic direction of the Group, monitoring its performance against the plan and ensuring that risks and governance were properly addressed. Each of the principal Board committees has carried out a separate effectiveness review, details of which are set out later in this report. Each committee concluded that it continued to be effective and all members are considered to have made valuable contributions. When considering Board membership, factors including the balance of skills, experience, independence and knowledge of the Group and diversity, including gender, are taken into account.

Communication between the Company and its shareholders is an essential element of a sound governance framework. Details of the process adopted for such communications are set out on page 45.

The AGM will be held at Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY on Friday 28 April 2017 at 10.30am. I welcome the opportunity to meet as many of our shareholders as can attend. The AGM provides a great opportunity for shareholders to ask any questions that they may have in respect of the Group's activities.

In conclusion, the Company has maintained its progress in improving standards of corporate governance established in recent years and the importance of retaining a strong governance framework in an ever challenging marketplace cannot be over-emphasised. I remain confident that the Board will continue to set the correct tone and provide strong leadership. The pages that follow explain how we applied specific aspects of the Group's compliance arrangements and how the main principles of the Code in relation to leadership, effectiveness, accountability, remuneration and relations with shareholders have been applied.

Mike O'Leary
Chairman
15 March 2017

Governance at EMIS Group

The governance structures have been established and developed based on the EMIS Group values of being a caring, innovative, joined-up and accountable business. It is through these strong beliefs that we seek to improve the delivery of healthcare.

Although the Company is not required to comply with the Code, the Board seeks, where possible and appropriate, to comply with the Code's principles and provisions to ensure alignment with good practice, transparency and openness. This report follows the key themes of the Code of leadership, effectiveness, accountability and relations with shareholders. The other key theme of remuneration is addressed separately in the Directors' remuneration report.

Leadership and effectiveness

The Board

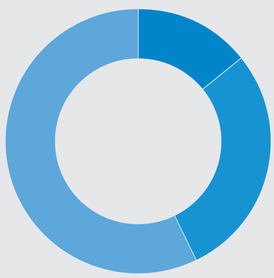
The Board's principal role is to provide effective leadership of the Group. It is responsible to shareholders for delivering shareholder value by developing the overall strategy and supporting the development of the direction of the Group. The Board is also responsible for overseeing the Group's external financial and other reporting and for ensuring that appropriate risk management and internal control systems are implemented and maintained. These responsibilities are largely exercised through the audit committee, which reports separately on pages 46 to 50.

The Board has a schedule of matters reserved to it including, but not limited to:

- strategy and long-term objectives;
- financial statements, dividend payments and accounting policies and practices;
- approval of the Group budget;
- measuring performance of KPIs, both financial and non-financial;
- capital structure;
- internal controls and risk management;
- acquisitions and disposals;
- major capital expenditure;
- legal (including major contracts), health and safety and insurance issues; and
- Board structure and the appointment of advisers.

The business model on pages 8 and 9 explains the basis on which the Group generates and preserves value over the longer term, and the strategy of the Group and achievements in 2016 are outlined on pages 12 to 15.

The Board undertakes a formal strategic review once a year. This two-day meeting reviews progress and seeks to develop the future strategic direction of the Group. It is attended by all Board members (on the first day) and the members of the Group Executive Board (GXB). The forum considers the economic environment in which the Group operates, reviews the current business model and market opportunities, reviews the principal risks facing the Company and sets the key strategic priorities for the next three years. It also sets the strategy for the longer term to enhance competitive advantage and shareholder value.



Corporate governance continued

Leadership and effectiveness continued

Board structure

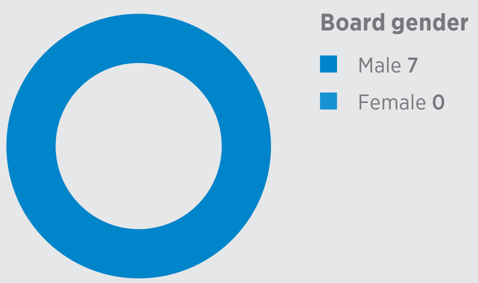
At the start of the year, the Board of EMIS Group plc ("the Board") consisted of Mike O'Leary, Non-executive Chairman; Chris Spencer, Chief Executive Officer; Peter Southby, Chief Financial Officer; Robin Taylor, Senior Independent Non-executive Director; Andy McKeon, Non-executive Director; and Kevin Boyd, Non-executive Director.

As previously referenced, Chris Spencer has announced his intention to retire as Chief Executive Officer and from the Board during 2017. A process has begun for the appointment of his successor.

On 1 January 2017, David Sides was appointed as a Non-executive Director of the Company. Appointments to the Board are led by the nomination committee. Further information on the process for this appointment can be found in that committee's report.

Mike O'Leary, Kevin Boyd, Andy McKeon, Robin Taylor and David Sides were considered by the Board to be independent at the time of their appointments. Each Non-executive Director is considered to be independent as to character and judgement and to be free of relationships and other circumstances that might impact their independence. The Chairman and Non-executive Directors meet at least annually without the Executive Directors present.

Appointments of Non-executive Directors are for specific terms and subject to statutory provisions relating to the removal of a Director.



Biographies of individual Directors are provided on pages 36 and 37. Their respective Board and committee responsibilities are outlined below and in the individual reports of the various committees.

The Board delegates certain responsibilities to the three principal Board committees: the audit committee, the remuneration committee and the nomination committee. These responsibilities are set out in formal terms of reference for each committee, which are available on the Group's website, www.emisgroupplc.com/investors/corporate-governance.

The Chairman of each committee reports to the Board in relation to the committee's activities and recommendations. Members of the Board who are not members of individual committees may be invited to attend meetings of those committees at the discretion of the respective committee's Chairman; however, they are not permitted to vote in respect of committee business.

Audit committee – The committee is responsible for overseeing the external financial reporting obligations and associated announcements, considering risk management, internal controls procedures and the work of the external auditor. The committee met four times during the year and comprises all of the Non-executive Directors. Full details of the work of the committee are set out in the audit committee report on pages 46 to 50.

Nomination committee – The committee is responsible for leading the Board appointments process and for considering the size, structure and composition of the Board, and met five times in the year. Full details of the work of the committee are set out in the nomination committee report on page 51.

The Board is satisfied that the size of the Board and its committees and the balance of Executive and Non-executive members is such that no individual or small group of individuals can unduly influence its decisions. The Board is made up of a majority of independent Non-executive Directors. As at the date of this report, the Board comprised the Chairman, four independent Non-executive Directors and two Executive Directors who collectively possess an appropriate balance of expertise to lead the Company's business. Each Non-executive Director brings a broad range of business knowledge and experience, as well as specific skills in the NHS, healthcare, digital technology, finance, corporate transactions or risk management.

The Executive Directors do not hold any non-executive directorships posts or positions as chairman in any other companies.

Remuneration committee – The committee met six times during the year and comprises all of the Non-executive Directors. 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 are set out in the remuneration committee report on pages 53 and 54.

The roles of the Chairman and the Chief Executive Officer 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. The key responsibilities of the Chairman, the Chief Executive Officer and the Non-executive Directors are set out below:

Chairman

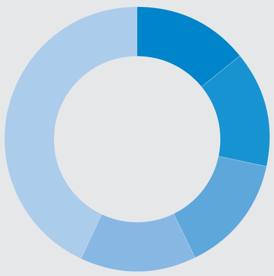
Mike O'Leary, as Chairman, is responsible for the leadership and effectiveness of the Board.

The Chairman:

- chairs the Board, the nomination committee and shareholder meetings (including the AGM);
- provides leadership of the Board and ensures the effectiveness of all aspects of the Board's role;
- provides challenge to the Executive Directors and works closely with the Chief Executive Officer on key strategic decisions;
- maintains a dialogue with major shareholders on governance and other strategic matters, as appropriate;

- sets the Board agenda and ensures all Directors have the opportunity to maximise their contribution to the Board by encouraging open and honest debate and constructive challenge of the Executive Directors; and
- undertakes the annual evaluation of the Board and builds an effective Board.

On his appointment, Mike O'Leary met the Code's requirement for independence. There have been no significant changes to his other commitments during the year which have had an impact on his ability to perform his duties for the Group.



Chief Executive Officer

The Chief Executive Officer, Chris Spencer, is responsible for the implementation of the approved strategic and financial objectives of the Group through the day-to-day leadership of the Group's business, within defined authority limits. To assist in this, the Chief Executive Officer has created a Group Executive Board (GXB) which consists of the Divisional Managing Directors, the Chief Financial Officer, the Director of Strategy and Marketing, the People Director, the Chief Medical Officer and the Chief Technology Officer. The GXB meets at least once a month with a focus on cross-Group integration and operational performance.

The Chief Executive Officer:

- is responsible for the day-to-day running of the business and is accountable to the Board for the Group's financial and operational performance;
- develops the Group strategy and leads the annual strategic forum;
- with the Chief Financial Officer, maintains close contact with the government, shareholders and major customers;
- with the Chief Financial Officer, approves the divisional budgets;
- chairs the GXB to direct and co-ordinate the management of the Group's business generally;
- monitors the performance of senior managers; and
- monitors the Group's principal risks.

Senior Independent Non-executive Director

The Senior Independent Non-executive Director, Robin Taylor, acts as a sounding board for the other Directors and conducts the Chairman's annual evaluation. He is also available to Directors and shareholders should a situation arise where it is necessary for concerns to be referred to the Board other than through the Chairman or the Chief Executive.

Non-executive Directors

The Non-executive Directors provide independent, constructive challenge and insight to the Executive team, forming an integral part of the Board's decision-making process together with the monitoring of management and business performance.

The Non-executive Directors play a key role in developing and reviewing proposals on strategy, actively participating in the annual strategy forum. They strengthen governance through participation in and chairmanship of the Board committees, providing a wide range of experience and independence. This aids the Board in developing a broader understanding and in evaluating the implications, risks and consequences of decisions.

Board operation

The number of meetings of the Board and its committees held during the year ended 31 December 2016, together with the Directors' attendance records, are summarised in the table on page 43. The location for Board meetings is rotated around the Group's principal sites in order to provide opportunities for the Board to meet management and colleagues and develop a better understanding of the Group's operations.

Board and committee papers are circulated one week in advance of meetings to enable the Board to review and consider the materials provided.

The Chairman ensures that input is sought and obtained from any Director who is unable to attend a Board meeting and he provides a verbal update following the meeting to complement the minutes. There is ongoing contact between the Chairman, the Executive Directors and the Non-executive Directors between Board meetings.

The amount of time that Non-executive Directors are expected to commit to discharge their duties is agreed on an individual basis and depends on their responsibilities. As part of the recruitment process, the individual time commitment for Non-executive Directors is agreed at the time of appointment and reviewed periodically thereafter. The time commitment takes into account whether the appointee is the Chair or a member of a Board committee and whether the Director has any external executive responsibilities. Typically this equates to a minimum of two days per month for a Non-executive Director and four days per month for the Chairman. As part of the Chairman's annual review of Directors' performance, it was confirmed that each of the Non-executive Directors continues to allocate sufficient time to discharge his responsibilities effectively and did so throughout the year.

Leadership and effectiveness continued

Board operation continued

A topical Board calendar is prepared on an annual basis with divisional Managing Directors and key Group functional Directors regularly invited to attend to present an update on their areas of the business. This is critical in providing further detail to support strategic decisions. In addition, the Board meets on an ad hoc basis as necessary to consider specific issues, such as acquisitions, which are supported by detailed Board papers circulated in advance analysing all relevant aspects of the topic under discussion.

Standing agenda items

At each meeting comprehensive Board packs are provided and the following standing items are discussed:

- strategic review;
- financial results and key performance indicators (KPIs);
- sales pipeline;
- management accounts and commentary;
- reports from the CEO on operational matters and the CFO on financial matters;
- regular presentations from members of the GXB;
- mergers and acquisitions;
- progress reports on major projects;
- analysts' forecasts;
- Board committee updates;
- investor relations engagement;
- legal, company secretarial and regulatory matters; and
- implementation of actions agreed at previous meetings.

Key topics considered by the Board in 2016

- acquisition opportunities;
- growth strategy operating model – Egton and Group;
- review, debate and challenge of the corporate strategy and plan;
- the 2017 Group budget;
- employee pay and rewards strategy;
- succession planning and Non-executive Director recruitment;
- banking facilities;
- financial results announcements, presentations, report and accounts and market updates (annual and half year);
- the Group's viability statement;
- risk profile;
- new Market Abuse Regulations;
- the Board evaluation report and discussion of the recommendations;
- management information and KPIs;
- half yearly update on environmental health and safety matters;
- presentation on the development function from the Chief Technology Officer; and
- Managing Directors' presentations relating to EMIS Health Primary & Community Care, Secondary Care and Specialist Care and EMIS Health India.

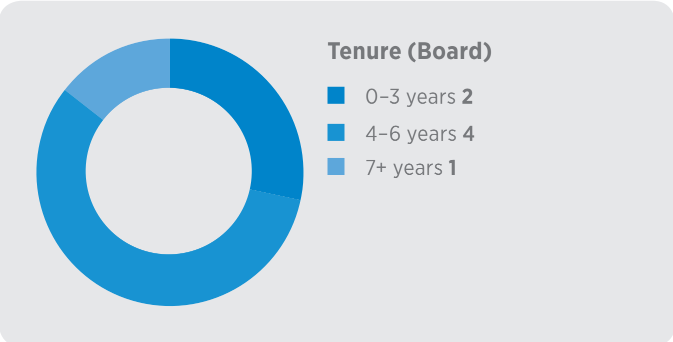
Board and committee effectiveness

During the year, the Chairman undertook an internal performance evaluation of individual Directors and the Board as a whole. The evaluation process considered the balance of skills, knowledge, independence and experience of the Board.

The Chairman met individually with each Board member and with the Company Secretary. A framework for those meetings was provided via a previously circulated agenda, covering topics which included strategic direction, governance, meeting agendas, Board packs, Board composition, risk monitoring and mitigation, and specific areas for improvement. Board members were invited to add any other topics to this agenda which they felt to be material or appropriate.

For each principal committee, a tailored questionnaire was circulated for completion by committee members and regular attendees covering all aspects of good governance. Directors were required to assess their satisfaction with the operation of the Board and its committees and the effectiveness of these bodies in fulfilling the key responsibilities set out in their respective terms of reference. The responses were collated and discussed. Overall, responses indicated a continued satisfaction with the governance framework and the working methods of each Director, the Board and its committees.

The Directors agreed that it is important for the Board to strive for continuous improvement in the way it is governed and operates and this will remain a focus for the year ahead.



Number of meetings of the Board and its committees during the year

The attendance record for Board members during the year to 31 December 2016 is set out below. Additional ad hoc meetings are held at short notice, as appropriate.

	Board	Audit committee	Nomination committee	Remuneration committee
Total number of meetings	12	4	5	6
Executive Directors				
Chris Spencer	12	—	—	—
Peter Southby	12	—	—	—
Non-executive Directors				
Mike O'Leary	12	4	5	6
Robin Taylor	12	4	5	6
Kevin Boyd	12	4	5	6
Andy McKeon	12	4	5	6

The Directors have access to the advice and services of the Company Secretary, Simon Waite, who is responsible for ensuring that the Board and its committees' 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 and maintained a share dealing code for Directors and employees in accordance with the Market Abuse Regulations which came into effect in July 2016.

The Board evaluation concluded that the Directors are open, constructive and able to express their views, and that the Board meets its regulatory requirements. Areas to be targeted specifically for improvement included:

- Content of the monthly Board pack. A review had previously commenced to identify ways in which the content of Board papers could be further enhanced. The evaluation supported the review process which sought to achieve an enhanced and clearer analysis of issues with a focus on the quality of information to support the Board decision-making process and to allow a broadening of debate.
- Risk evaluation. An improved process should be developed to enable the Board to consider risks in more detail. The assessment of risk management had also been highlighted in the audit committee evaluation.
- Board composition. It was noted that composition had been enhanced by the appointment of David Sides as an additional Non-executive Director, from both a commercial and market expertise perspective.
- Annual strategy review. This was highlighted as a key opportunity for the Board, and in particular the Non-executive members, to better understand strategic options available. It was agreed to review the form and content of the session to ensure that the strategic direction of the business was appropriately addressed.

As Senior Independent Non-executive Director, Robin Taylor reviewed the performance of the Chairman with the other members of the Board. The Directors unanimously agreed that Mike O'Leary continues to lead the Board in an effective and inclusive way. He remains engaged, knowledgeable and committed to his role. Directors are actively encouraged to contribute to Board discussions on all matters of significance to the strategy and development of the business.

Conflicts of interest

Directors have a legal duty to avoid conflicts of interest. Prior to appointment, conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment. If any potential conflict arises, the Articles of Association permit the Board to authorise the conflict, subject to such conditions or limitations as the Board may determine. In situations where a potential conflict arises, the Director concerned will not attend any related meeting or discussion, and all material in relation to that matter will be restricted, including Board papers and minutes. A revised conflicts of interest policy was approved during the year.

Induction and development

All new Directors undergo a comprehensive induction and development programme, which is designed to help Directors make an effective and informed contribution to the Board as quickly as possible after appointment. Induction programmes are tailored to the new Directors based upon their needs identified during the recruitment process. The aim is for an induction programme to be completed over a six to nine-month timescale depending upon the Directors' knowledge, experience and other commitments. New Directors receive a comprehensive pack of information and a tailored induction programme that includes meeting senior managers. This ensures that knowledge and understanding of the business and its technology are developed rapidly with that understanding subsequently maintained and enhanced by regular Board site visits to keep up to date with Group developments. All Directors are encouraged to attend relevant training courses and events.

The process for the appointment of new Directors is rigorous and transparent, and further information is contained in the report of the nomination committee on page 51.

Corporate governance continued

Accountability

There are formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles are applied and for maintaining an appropriate relationship with the Company's auditor.

The Company has a wide range of governance policies and procedures in place, including: a code of ethics; an anti-bribery and corruption policy and training programme; a whistleblowing policy (including an external whistleblowing hotline); human resource and staff welfare policies and procedures (including health and safety); new Group-wide employment contracts; and internal audit visits.

Internal control

The Board is accountable to its shareholders and seeks to balance their interests with those of a broader range of stakeholders, which includes colleagues, suppliers, customers, regulators and the community. The Board has ultimate responsibility for the Group's internal control arrangements and for reviewing their effectiveness. Such arrangements guide and direct the activities of the Group to support delivery of its strategic, financial, operational and other objectives and safeguard shareholders' investment and the Group's assets. The Board governs through clearly defined committee structures which support the work of, and are accountable to, the Board. Details of the role and activities of the principal committees are set out in the committee reports.

The Board recognises that a system of internal control reduces, but cannot eliminate, the likelihood and/or impact of poor judgement in decision making, human error, deliberate circumvention of control processes by employees and others, management override of controls and the occurrence of unforeseeable circumstances.

The Board sets policies and seeks and obtains on an ongoing basis, both directly and through the audit committee, assurance regarding the existence and operation of appropriate internal controls to mitigate key strategic, financial, operational, compliance and reputational risks. The Board and audit committee consider any significant control matters raised in reports from management, the Company's external auditor and the Head of Group Internal Audit, and the Board monitors the progress of remedial actions.

The key components of the Group's overall control frameworks, all of which were in place, throughout the year ended 31 December 2016 and up to the date of approval of this report, are set out below.

- Authorisation limits are in place.
- An appropriate finance function for each principal business in the Group with suitably qualified and experienced professionals. Divisional finance leads report to the Divisional Managing Directors and the Group Financial Controller.
- A comprehensive monthly financial reporting system in place which covers, amongst other things, operating results, cash flow, balance sheet information, forecasts and comparisons against budgets.
- Regular updates to the Board from management on property, insurance, litigation, human resources, corporate social responsibility and health and safety matters.
- The Group's continuation of the structured roll-out of a common ERP solution (Microsoft Dynamics AX) across the business to improve controls, business and financial reporting and processes.

Segregation of duties, authorisation limits and other key internal controls are designed into both system-based and manual processes. These arrangements are reviewed periodically by management, internal quality assurance functions and internal audit to ensure they remain appropriate.

The Group has extensive internal quality assurance processes in critical areas of the business and there are functions within the Group that provide assurance and advice covering specialist areas, such as information security and clinical safety.

These are reviewed on an annual basis against the current factors relevant to the Company's activities or markets, or other areas of the external environment that may be expected to increase the risks faced by the Company.

The Group's divisions variously hold ten separate ISO certifications against the following four standards; ISO 27001: Information Security; ISO 9001: Quality; ISO 20000: Service Management; and ISO 14001: Environmental (Group certification). Each certificate requires an overall management system, which includes an internal audit process that feeds into a service improvement process, to ensure that the standards are being adhered to, remain relevant to the business and are continually improved.

In 2017, the aim is to create Group certifications, which will reduce the overall number of certificates held, but will update existing certifications and enable the standardisation of processes and the application of a more consistent approach to assurance and governance across the Group. It is also planned to prioritise areas of the business which require inclusion under the scope of these certificates and to provide a pathway to extend the scope to cover them at the appropriate time.

Financial planning and monitoring

EMIS Group sets annual budgets, incorporating three-year projections, which are subject to Board approval.

The Board reviews business performance when it meets. Summary financial information, including actual performance versus budget, expected performance and prior year comparatives, is provided to all Board members on a monthly basis. The monthly reporting process is supplemented by a cycle of reviews that incorporate in-depth reforecasting of expected financial performance for the remainder of the current financial year.

Policies, procedures and authorisation limits

The Group has grown both organically and through business acquisition in recent years. This has resulted in a mix of locally defined policies and procedures covering a range of activities, which are adequate, but not necessarily fully aligned with each other. There is an ongoing programme to define and create Group policies in key areas and for the divisions to adopt and apply those policies.

During the year, significant work has been carried out to produce a Group Finance Manual, which will be completed and rolled out across the business in 2017. The manual defines the Group's policies across a range of areas, including delegated authority levels, and the divisions will be aligning their local practices to the guiding principles outlined in the manual. A new Group business expenses policy was launched on 1 January 2017.

A revised Group whistleblowing policy was implemented during the year. This introduced a confidential reporting hotline operated by an external independent whistleblowing service provider. The policy and the reporting hotline were launched across the Group by the CEO and considerable efforts have been made to publicise the policy and the reporting hotline to the business. Employees are expected to acknowledge that they have read and understood the policy.

With effect from 1 January 2017, a new rewards and recognition policy was introduced, following a review carried out in conjunction with Hay Group. The policy has introduced a more consistent, standardised and simplified approach to how the Group looks after its people, based on the following core elements: one EMIS Group reward framework; one EMIS Group set of policies and one employee handbook; and consistent employment contracts across the Group.

Risk management

The risk management process is described in the report of the audit committee on pages 46 to 50.

The Board considers the nature and extent of the principal risks for which it has appetite in achieving its strategic objectives and maintains sound risk management and internal control systems. During the year, the Board spent considerable time with the senior management team discussing and defining its risk appetite across a range of key risk categories. This continues to be communicated to the business through the risk management process.

The principal risks and uncertainties that the Group faces, and features of the internal control system that operated throughout the period covered by the financial statements, are referred to either above or in the report of the audit committee. The approach to risk management and the principal risks themselves are set out on pages 16 to 19.

Internal audit

The Group established a risk-based internal audit function during 2015 and this continued to operate throughout 2016.

The Head of Group Internal Audit reports administratively to the Group Financial Controller, but operates independently and has direct and unfettered access to the Chairman of the audit committee. These reporting lines will be kept under review to ensure the function maintains its independence from management. The function provides regular and timely updates on its activities to the audit committee. The work of internal audit is further described in the report of the audit committee on page 49.

Relations with shareholders

The Executive Directors provide the key focus for engagement with shareholders and prospective investors. During the year, an extensive programme of meetings with analysts and institutional shareholders took place following the preliminary and interim financial results announcements. The success of the US roadshow introduced in 2015 was built upon with a further visit by the CFO in March 2016. There is regular dialogue with individual institutional shareholders throughout the year to discuss strategy, performance and governance and to obtain feedback. These meetings are usually attended by the CEO and the CFO. A capital markets event was held in October 2016 at which investors and analysts were invited to Leeds and received presentations from some of the Group's customers and from members of the GXB.

Feedback from these meetings, and regular market updates prepared by the Company's broker, are presented to the Board to ensure the Directors have a good understanding of shareholders' views. The Chairman and the Senior Independent Non-executive Director are also available separately to shareholders to discuss strategy and governance issues. Feedback from any such communications is provided to the Board at the next scheduled meeting.

The Company has a dedicated investors' section on its website, www.emisgroupplc.com/investors, together with a wide range of information on the Group's activities, including all regulatory announcements.

At the AGM, on 28 April 2017, 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, including the committee Chairmen, will be available to answer questions at the AGM. The annual report, financial statements and related papers are placed on the Group's website and posted to shareholders if they have requested a paper copy.

Mike O'Leary
Chairman
15 March 2017

Report of the audit committee

ROBIN TAYLOR, CHAIRMAN OF THE AUDIT COMMITTEE

Committee members

- **Robin Taylor (Chairman)**
- **Mike O'Leary**
- **Kevin Boyd**
- **Andy McKeon**
- **David Sides** (appointed 1 January 2017)

Regular attendees

- **Chief Executive Officer**[1]
- **Chief Financial Officer**[1]
- **Group Financial Controller**[1]
- **Head of Group Internal Audit**[1]
- **Representatives from the external auditor, KPMG**[1]
- **Company Secretary**

1 By invitation.

What does the committee do?

The committee provides oversight of:

- financial reporting and external audit;
- internal controls;
- internal audit; and
- whistleblowing, fraud and bribery provision.

The committee reviews its terms of reference on an annual basis and these are available on the Group's website.

The audit committee was in place throughout the year and held four meetings.

Dear Shareholder

As Chairman of the audit committee, I am pleased to present our report for the year ended 31 December 2016.

The report provides insight into the composition of the audit committee and the work it undertakes to ensure that it has performed its main responsibilities in reviewing financial reporting, internal control procedures and risk management, and in relation to the objectivity and independence of the external auditor.

The committee acknowledges and embraces its role in protecting the interests of shareholders and we are committed to monitoring the integrity of the Group's reporting. The committee performed a detailed review of the content and tone of the full year, half year and trading update regulatory announcements, and the annual report and accounts and half-yearly financial statements. The committee has satisfied itself that controls over the accuracy and consistency of information presented are robust.

Composition and governance

In addition to my role as Chairman of the audit committee, I am also Senior Independent Non-executive Director. The Board considers both myself and Kevin Boyd to have recent and relevant financial experience.

The other members of the committee during 2016 were Andy McKeon and Mike O'Leary. David Sides was appointed to the committee on 1 January 2017. The Board evaluates membership of the committee on an annual basis. The Board considered all members of the committee to be independent on appointment.

Biographical details of all of the Directors are set out on pages 36 and 37.

The Board believes that the current members have sufficient skills, qualifications and experience to discharge their duties in accordance with the committee's terms of reference. The appointment of David Sides has provided additional strength to the committee, especially in the field of digital healthcare systems.

The Chief Executive Officer, the Chief Financial Officer, the Head of Group Internal Audit, the Group Financial Controller and senior representatives of the external auditor attend committee meetings by invitation to ensure that all relevant information is available to the committee.

All Board members attend each committee meeting and as a committee we meet with the external auditor, without executive management present, to discuss matters relating to its remit and any issues relating to the audit. I also meet with the external auditor, the Chief Financial Officer and the Head of Group Internal Audit outside the formal meetings to ensure that any areas for discussion are dealt with on a timely basis.

How the committee discharged its responsibilities

The audit committee met four times during the year in alignment with its terms of reference and with the Group's financial reporting timetable.

The audit committee is assisted in discharging its responsibilities by executive management reports, internal and external audit reports, engagement with the executive management team at the annual strategy meeting and by regular business planning and performance presentations.

A self-assessment internal review of the effectiveness of the audit committee was carried out during the year through the completion of questionnaires by committee members and regular attendees. No major deficiencies were noted; however, several recommendations were made to improve the committee's effectiveness, including:

- to review the number of committee meetings and time allocated for these meetings to ensure that it was appropriate for the issues to be addressed;
- to clarify the committee's role in the risk management process; and
- to provide training and development opportunities for committee members from a variety of sources including the external auditor.

Executive management assisted the audit committee in ensuring that relevant papers of good quality were presented to allow informed debate.

The work undertaken by the audit committee during the past year is detailed below:

Financial reporting

- Reviewed the full year results including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the committee considered the work and recommendations of management as well as the report from the external auditor.
- Reviewed the interim results statement.
- Considered the appropriateness of accounting policies and critical accounting estimates and judgements. To do this, the committee considered information provided by the Chief Financial Officer and reports from the external auditor setting out its views on the accounting treatments and judgements in the financial statements.
- Reviewed going concern assumptions when considering interim and final results statements and long-term viability when considering the final results statement. Internal financial projections and the results of stress testing the financial models were taken into account.

Risk management and internal control

- Reviewed the current Group risk management process and concluded that it is appropriate and operating effectively.
- Reviewed and approved a Group risk management policy.
- Approved a project to develop an in-house, web-based risk management software application, TheOneView, to further enhance and embed risk management across the business.
- Considered the process for ensuring that the principal business risks are being captured and reported to the Board and that the risk disclosures in the annual report are appropriate.
- Considered the effectiveness of internal controls and risk management systems. There is continued focus on the quality and timeliness of internal financial reporting with the ongoing programme to roll out the Microsoft Dynamics AX ERP solution across the Group. The system is now live in EMIS Health Primary & Community Care, EMIS Group plc, EMIS Health India, Egton and Patient.
- Reviewed the effectiveness of the current procedures for the prevention of fraud. The committee reviewed the measures in place for the prevention and detection of fraud including extensive internal quality assurance processes and the system of internal financial controls as set out in the corporate governance report.
- Monitored and reviewed the effectiveness of the internal audit and Group finance functions.
- Reviewed the whistleblowing policy and procedures to ensure arrangements are in place for the proportionate and independent investigation of any reported incidents. The whistleblowing policy includes provision for employees to raise concerns with the Senior Independent Non-executive Director. No matters were reported during the year.
- Reviewed the effectiveness of compliance with the UK Bribery Act. There were no areas of non-compliance reported to the committee during the year and the committee was satisfied with current procedures, including online training on the UK Bribery Act given to all employees.

Report of the audit committee continued

How the committee discharged its responsibilities continued

External auditor

- Reviewed the scope and the audit plan for the year-end Group and subsidiary audits.
- Reviewed the formal engagement terms, objectivity and independence of the auditor, including the qualifications, expertise and resources available.
- Assessed the effectiveness of the external audit process by reviewing, amongst other things, whether the auditor has met the agreed audit plan and by considering the robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements identified.

Financial reporting and significant areas of judgement

In finalising the 2016 financial statements, the significant judgements considered by the committee and discussed with the external auditor were as follows:

Nature of the issue	What the committee considered and any actions undertaken
Carrying amounts of goodwill, intangible assets acquired and investments	The carrying amounts of goodwill, intangible assets acquired and investments are reviewed for impairment at least annually and are assessed against the net present value of projected cash flows for each cash-generating unit (CGU). Details of the assumptions used in relation to the review of goodwill carrying value are set out in note 13 to the financial statements. Following the reviews during the year, an impairment charge of £4,616,000 has been recognised in the Group statement of comprehensive income against the carrying value of goodwill in the Specialist Care CGU. This is in respect of the EMIS Care business which has experienced additional costs associated with the implementation of its new contracts along with some operational inefficiencies. The committee discussed the assumptions underlying the related cash flow projections with both management and KPMG and also considered the appropriateness of the discount rates used. Following discussion on headroom and sensitivity, the committee was satisfied that the carrying amounts of goodwill, intangible assets acquired and investments, after the impairment charge recognised in the year, were appropriate.
Revenue recognition	The audit committee considered the Group's revenue recognition policies and concluded that the Group's existing approach remained appropriate, noting that this was adequately explained in the revenue recognition accounting policy note and consistent with the requirements of IAS 18. The external auditor performed substantive testing in this area and reported its findings to the committee.
Research and development costs	The process to capture and categorise development costs was reviewed. There were no material changes to this process from the prior year, with the roll-out of Microsoft Dynamics AX during 2017 expected to further improve the quality of reporting in this area. Balances carried forward in respect of development costs were considered for possible impairment and the committee concluded that the carrying values and amortisation periods were appropriate.

External audit

In accordance with its terms of reference, the committee annually reviews the audit requirements of the Group and the effectiveness and independence of the incumbent external auditor prior to any decision to re-appoint.

The committee is responsible for ensuring that the independence of the Group's external auditor is not compromised or put at risk of compromise. The committee reviews both the annual audit plan and output from the audit process as part of assessing the auditor's expertise and performance.

The Group is excluded from the provisions of the recent EU Audit Directive and Regulation on the grounds that it is AIM quoted; however, we aim to voluntarily meet the regulatory requirements as a matter of good practice. KPMG has been the Group's external auditor since 2013, with the current audit partner, Johnathan Pass, having been appointed in that year. Having undertaken an appropriate tender process and appointed an external auditor so recently, we have no plans to put the external audit out to tender in the near future, and would not be required to do so until 2023 under the EU Audit Directive and Regulation. We will commence the process of partner rotation in 2017 to facilitate the smooth change of engagement partner ahead of the current partner reaching five years in that position.

The committee used a questionnaire-based approach to gather the opinions of key Directors and senior finance management to assess, amongst other criteria, the performance, quality and value provided by the external auditor. The external auditor provided information relevant to assuring us about its own independence, objectivity and compliance with regulatory and ethical standards. We also considered external regulatory reviews of the external auditor's performance.

Provision of non-audit services by the external auditor

The audit committee monitors the nature and extent of non-audit services provided by the external auditor. The committee is consulted prior to engagement of the external auditor for non-audit work and formally approves any individually material non-audit services. Consideration is given to any perceived threat to independence prior to the procurement of non-audit services from the external auditor, with other external advisers used where appropriate. During the year, the committee determined that tax services would no longer be procured from the external auditor. Following a selection process, Deloitte LLP was appointed to provide these services in future.

A summary analysis of fees to KPMG for audit and non-audit services during the year ended 31 December 2016 appears in note 6 to the financial statements on page 86.

Internal audit

EMIS Group maintains an in-house internal audit function, which objectively reviews the Group's internal control processes in line with the risk-based internal audit plan as approved by the committee. The internal audit plan is based primarily on output from the risk management process, but it is flexible and may include ad hoc investigations and other assurance work as agreed by the committee. Specialist technical knowledge is externally sourced when required.

Internal audit operates in accordance with the Audit Charter, which is periodically reviewed and approved by the audit committee.

The Head of Group Internal Audit maintains independence through direct access to me, without the need to refer to Executive management. He attends audit committee meetings by invitation and reports to the committee on internal audit, risk management and corporate governance matters. I periodically meet with him without management being present.

Risk management

The committee is responsible for the effectiveness of sound risk management and internal control systems. It fulfils this role by monitoring the risk management processes in place and the activities of the finance and internal audit functions.

The committee has reviewed and approved the Group risk management policy and the Group operates a structured risk management process led by the Chief Executive Officer. The purpose of the risk management process is to identify, evaluate, mitigate and monitor principal risks to the achievement of the Group's stated objectives.

In 2016, this was done using documents completed by members of the GXB and submitted to the Chief Executive Officer for review and consolidation into a corporate risk register. During the year, the Board approved a project to implement TheOneView, an in-house, web-based risk management application owned by Egton Digital. This will extend management's accountability for, and understanding of, risk management in the divisions and in key Group functions. It will enable real-time risk reporting, instant collation of risk registers and the assignment of actions directly to managers. TheOneView began to be piloted across the business in January 2017 and continues to be configured to match the Group's requirements.

Risk appetite

At the annual Group strategy meeting in May 2016, the Board, with input from the GXB, defined its risk appetite across a range of risk categories as outlined below. Detailed statements were drafted to support these basic levels of risk appetite. For example, the statement supporting the "Overall" category states: "EMIS Group operates within a low overall risk range. Although there are areas where EMIS Group is prepared to take higher levels of risk, it normally operates in a manner that would not be expected to put the business at risk of significant financial or reputational damage. Generally speaking, there should be no significant deviations from stakeholders' expectations and rewards should be commensurate with the level of risk being taken within a reasonable timeframe."

These statements provide management with guidance on how much and what types of risk the Board is prepared to accept when management is making business decisions.

The Board will periodically review and revise its risk appetite in these areas. Risk appetite parameters are built into TheOneView, and any area where exposure is seen to exceed the Board's risk appetite will be flagged and assigned to specific members of the GXB to determine what, if any, additional action is required.

Risk category	Risk appetite
Overall	**Low**
Strategic	Medium
Financial	Low
Compliance (legal, regulatory, health and safety, environmental)	Very low
Operational:	
– Commercial	Low/medium
– Sales	Medium
– Marketing (including product strategy)	Medium
– People	Low
– Property	Low
Technical:	
– Innovation	Medium
– Development	Low
– Release (testing/quality assurance, etc.)	Low
– Implementation	Low
Clinical:	
– Safety	Very low
– Delivery	Very low
Data management:	
– Information governance (in relation to clinical safety)	Very low
– Information security (in relation to data records and data security)	Very low

Report of the audit committee continued

Risk appetite continued

The committee reviews the corporate-level risk register at each of its scheduled meetings and ensures that the risks identified align with its view of the principal risks facing the business. During 2017 it is intended that more focussed risk reviews will be carried out and that the Board will review the risk register on a bi-annual basis.

All risks are evaluated using the same measurement metrics comprising of financial and reputational impact on the business and the likelihood of a risk occurring. Each risk has a named owner who is responsible for ensuring that mitigating actions and controls are in place and operating effectively.

Periodic updates on the status of agreed risk management actions are provided to the committee. More detail of the principal risks and uncertainties facing the business can be found on pages 16 to 19.

Effectiveness of internal control arrangements

On behalf of the Board the committee carries out at least annually a robust review of the Group's internal control arrangements including operational, financial and compliance controls. The ongoing review of systems comprises a mixture of annual exercises and regular status updates received from senior management and internal audit at each of the committee's meetings.

Key components of the review that have been considered throughout the year include the following:

- review of the Group's confidential reporting (whistleblowing) arrangements and any matters raised through this process;
- reports from the Group's external and internal auditors;
- updates on the status of issues raised in internal audit reports;
- management representations; and
- mapping of assessment questions proposed in the appendix to the Code against key control processes in place.

The committee is satisfied that appropriate actions have been, or are being, taken to remedy any significant weaknesses or failures identified as a result of this or other review processes and has reported this conclusion to the Board.

Robin Taylor
Chairman of the audit committee
15 March 2017

Report of the nomination committee

MIKE O'LEARY, CHAIRMAN OF THE NOMINATION COMMITTEE

Committee members

- **Mike O'Leary (Chairman)**
- **Kevin Boyd**
- **Andy McKeon**
- **Robin Taylor**
- **David Sides** (appointed 1 January 2017)

Regular attendees

- **Chief Executive Officer**[1]
- **Chief Financial Officer**[1]
- **Company Secretary**

1 By invitation.

What does the committee do?

The committee is responsible for:

- ensuring that the balance of Directors on the Board remains appropriate as the Group develops to ensure that the business can compete effectively in the marketplace;
- identifying and nominating candidates to fill Board vacancies as and when they arise;
- evaluating of the balance of skills, knowledge, experience and diversity of the Board to ensure the optimum mix; and
- considering the succession planning for Directors and senior managers to ensure that there is a pipeline of high calibre candidates and that succession is managed smoothly.

The committee's terms of reference are reviewed and approved at least annually and are available on the Group's website. Non-executive Directors are appointed by a letter of appointment and details of their terms and those of the Executive Directors are set out on pages 60 to 62.

The committee solely comprises independent Non-executive Directors and met five times during the year. The committee Chairman provided a verbal update to the Board following each committee meeting.

Dear Shareholder

I am pleased to present our report for the year ended 31 December 2016.

Review of activity during the year

A detailed review was carried out of the skills and experience required to ensure that the Board is well placed to address the changing needs of, and challenges facing, the business. The review concluded that an additional Non-executive Director should be recruited to further strengthen the Board. Ensuring that the Board has the right balance of skills, diversity and independence is an important part of ensuring its effectiveness and a key responsibility of the committee.

The committee provided oversight of the selection process of an independent search firm to identify the new Non-executive Director. The chosen firm, Spencer Stuart, worked with the committee to prepare a detailed role and person specification. The key attributes of the specification included: international healthcare market experience and understanding; knowledge of digital businesses; public company and broad business experience; and a commercially experienced business leader with a strong track record of success. An extensive search of the market was then carried out (both in the UK and overseas), which produced a longlist before this was narrowed down to a shortlist for interview. The committee, with support from the Executive Directors, carried out the interviews to assess the suitability of the candidates to the role. The importance of ensuring the candidate's fit with EMIS Group's culture was an important element of the selection process.

During the process the committee was mindful of the issue of Board diversity. This is not just related to gender, but to a broader diversity challenge that exists. The committee understands the importance of a diverse Board but also acknowledges the importance of ensuring that the selection of Directors and, in a wider context, employees throughout the Group should be based upon a range of factors including skills, experience, qualifications, background and values. Accordingly, all vacancies are filled taking into account these wider factors and are not based to a disproportionate extent on one factor such as gender or ethnicity. Notwithstanding this, there remains a strong commitment to improving diversity within the Board and this will be taken into account as part of any future Board appointments process.

The committee recommended the appointment of David Sides as a Non-executive Director and this was approved by the Board with effect from 1 January 2017. David brings with him a wealth of experience of the healthcare industry gained on a global basis. He spent 17 years at Cerner Corporation covering a range of roles including senior vice president (worldwide consulting) and four years as managing director of the UK and Ireland business, based in London. He is currently president and CEO of Streamline Health Solutions, Inc., a provider of transformational data-driven solutions to healthcare providers, and before that was CEO of iMDsoft Inc. David is based in Atlanta, Georgia.

Report of the nomination committee continued

Review of activity during the year continued

On 12 December 2016, it was announced that Chris Spencer had indicated his intention to retire from his position as Chief Executive Officer and from the Board by the end of 2017. A formal search has begun for his successor led by the committee. Spencer Stuart has been appointed to assist the committee and good progress is being made in identifying suitably qualified and experienced candidates for the role. Once the comprehensive and robust process has concluded, a recommendation will be made to the Board and an announcement will be made. Spencer Stuart has no other connections with the Group.

Consideration was given to succession planning for the Board and senior management because ensuring a strong pipeline of future leaders is an important factor in the Group's continued success. This was also considered by the full Board. Coaching and mentoring was provided to senior individuals and during the course of the year opportunities were identified to support the broadening of skillsets and experience.

An evaluation of the committee's own performance and terms of reference was carried out. A questionnaire sent to each Director on the performance of the nomination committee concluded that specific tasks were handled both appropriately and in a timely manner.

These tasks are currently addressed on an ad hoc basis. Board members generally felt that an improved contribution to the Group's direction could be achieved if there were to be a more formal regular review of some topics by the committee, but without risking an added layer of unnecessary bureaucracy. As the Group grows, this formality is likely to become more important.

Terms of reference for this committee are agreed to be appropriate and the Board is satisfied that the committee is adequately constituted to enable these to be met. It was not felt that a broadening of the role of this committee to consider corporate governance would be desirable as such matters are more than amply covered elsewhere by other bodies.

Interaction with management by the committee was felt to be constructive but some felt that succession management could be improved, especially by better use of internal resource, rather than regular recruitment externally.

The committee considered the election and re-election of each Director to the Board. In all cases the Directors who were subject to election or re-election, in accordance with the Code, were not present at these discussions and did not vote on proposals regarding their own position.

Mike O'Leary
Chairman of the nomination committee
15 March 2017

Report of the remuneration committee

ANDY MCKEON, CHAIRMAN OF THE REMUNERATION COMMITTEE

Committee members

- **Andy McKeon (Chairman)**
- **Kevin Boyd**
- **Mike O'Leary**
- **Robin Taylor**
- **David Sides** (appointed 1 January 2017)

Regular attendees

- **Chief Executive Officer**[1]
- **Chief Financial Officer**[1]
- **Company Secretary**

1 By invitation.

What does the committee do?

The committee is responsible for:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chief Executive Officer, the Chairman of the Board, the Executive Directors and other senior members of Executive management, including pension and compensation payments;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders, and determining each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to Executive Directors and other senior Executives, and the performance targets to be used; and
- determining the policy for, and scope of, pension and benefits arrangements for each Executive Director and other senior Executives.

The committee's terms of reference are reviewed and approved at least annually and are available on the Group's website. Non-executive Directors are appointed by a letter of appointment and details of their terms are set out on pages 61 and 62.

The committee solely comprises independent Non-executive Directors and met six times during the year. The committee Chairman provided an oral update to the Board following each committee meeting.

Dear Shareholder

On behalf of the Board I am pleased to present the report of the remuneration committee for 2016. This report is split into three sections: firstly, my report, which summarises the work of the remuneration committee during the year and outlines some of the factors taken into account by the committee when reaching key decisions; secondly, the remuneration policy which has been revised and seeks to adopt, where appropriate, best practice for a public listed company of our size; and, finally, the annual report on remuneration. Major shareholders were consulted regarding the committee's proposed changes to the remuneration policy.

The annual report sets out the remuneration paid to Directors in 2016 including bonus payments and long-term incentives and also includes the detail on how we intend to implement our remuneration policy in 2017.

As the Company is quoted on AIM, it is not required to comply with the UK Listing Authority Rules or the UK Corporate Governance Code; however, the committee has previously decided to adopt a number of the key reporting requirements from this guidance. The committee remains committed to continuing development of best practice, where appropriate, in the remuneration policy and has clearly defined terms of reference which are reviewed annually by the committee. These are available on the website at www.emisgroupplc.com/investors.

The remuneration report and remuneration policy will be presented at the Annual General Meeting on 28 April 2017 by way of a separate advisory vote.

Work of the committee

During 2016 the committee considered a number of issues including:

- the AGM voting outcome for the 2015 report;
- the overall remuneration packages (including pensions) of the Executive Directors with the aim of recognising best practice, aligning with shareholder objectives and encouraging behaviours to maintain the long-term success of the business;
- the performance measures set for the bonus scheme and the determination of any awards made under it;
- reward structures for the Executive management and the wider management team (including for the new CEO to be appointed during 2017);
- all awards made under the Company share option plan (CSOP). The committee also approved the performance measures set for the CSOP;
- the vesting of the awards under the 2013 CSOP;
- the part-vesting at the second measurement date of a long-term share award originally granted to the CFO in 2013;

Report of the remuneration committee continued

Work of the Committee continued

- all awards made under the Long Term Incentive Plan (LTIP). The committee also approved the performance measures set for the LTIP;
- the CSOP and LTIP structure taking into account current market best practice and institutional investors' current guidelines;
- the remuneration arrangements for the GXB members;
- the review of, and consultation with shareholders, on a revised remuneration policy. In reviewing the policy the committee took external advice on external market developments and best practice in remuneration;
- its external remuneration advisers, with Deloitte appointed as principal external advisers during the year; and
- a review of the committee terms of reference.

Corporate performance

As outlined in the strategic report on pages 1 to 35, EMIS Group had another strong year in 2016, delivering a 6% increase in adjusted operating profit and a 9% increase in adjusted earnings per share, achieved despite a more challenging market environment. Overall, trading for the year was in line with the Board's expectations and the Group increased its operating margin from 23.4% to 24.4%.

Our market leading position in UK primary care was maintained and the Group continued its contract win momentum in CCMH. The leading position in the independent pharmacy market was maintained and preparation continued for the implementation of next-generation software into the estate, including into sites secured through a major new contract which will give further market share growth in the coming year.

Results in the Secondary & Specialist Care segment were behind expectations, with a slowdown in Secondary Care procurements and, in Specialist Care, additional costs associated with the implementation of new contracts in geographical areas previously operated by the NHS resulting in a reduction in revenue and profit overall.

The Group's revenue visibility, order book and pipeline remained strong, with the Group maintaining a high level of recurring revenue in the period.

Remuneration for 2016

As in previous years, Executive Directors were eligible to receive a bonus depending on the level of Group adjusted profit achieved. Performance targets were stretching and based on the financial performance of the Group. Performance in the year did not meet the targeted level and therefore the committee concluded that, in line with the rules, no bonus payments would be made.

Further details about the variable pay awards are set out in the Directors' remuneration report on pages 55 to 66.

Implementation of policy for 2017

Base salaries – As reported last year, a detailed review of the remuneration packages of Chris Spencer and Peter Southby was carried out in late 2015 and increases to base salaries for both were implemented on 1 January 2016. Chris Spencer chose not to accept his full increase in 2016 and chose not to accept any further increase in his base salary in 2017 under the award agreed in 2015. For Peter Southby an increase of 1.5% of base salary to £253,750, was agreed with effect from 1 January 2017. Chris Spencer will retire during the coming year and the committee expects his successor as CEO to be appointed with a market-appropriate package consistent with the remuneration policy set out in this report.

Committee effectiveness

An annual effectiveness review was carried out and concluded that the committee continued to operate effectively. However, three areas for potential improvement were highlighted:

- the opportunity to ensure that there was an improved linkage between rewards and strategic objectives;
- the need to ensure that the committee provided oversight in the application of remuneration principles across all companies within the Group; and
- the provision of access to appropriate training and development for committee members, including an annual update from Deloitte, as its principal external adviser.

David Sides joined the committee upon his appointment to the Board on 1 January 2017 and I look forward to his input to the committee's deliberations.

On behalf of the committee, I hope that you will support the resolutions to be presented at the AGM in April 2017.

Andy McKeon
Chairman of the remuneration committee
15 March 2017

Directors' remuneration report

Directors' remuneration policy

The remuneration policy aims 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. The policy outlined on pages 55 to 62 will apply from 28 April 2017.

Policy table

The policy table below summarises the key components of remuneration for Executive Directors:

Element	Operation	Opportunity	Performance metrics
Base salary			
To recognise the individual's skills and experience and provide a competitive base reward to attract and retain Executive Directors.	Base salaries are usually reviewed annually, taking into account the individual's performance, responsibility, skills and experience; Group performance and market conditions; salary levels for similar roles at relevant comparators (including companies of a similar size and sector); and pay levels and percentage salary increases across the wider employee population. There is no set maximum. Any changes usually take effect from 1 January each year.	While there is no maximum salary, any increase will typically be in line with those awarded to the wider employee population. The committee has discretion to award higher increases in circumstances that it considers appropriate, such as: • a material change in the size or complexity of the business or responsibility of the role; • development in the role; • changes in market practice; and • moving the salary of a newly appointed Executive Director to be aligned with a market competitive range over time. Details of salary changes will be disclosed in the annual report for the relevant year.	None.
Pension			
To provide a market competitive retirement benefit.	The Group makes contributions to the private pension schemes or other appropriate arrangements for the Executive Directors. The committee has discretion to make a cash payment in lieu of pension contribution. Any such payments (and pension contributions) do not count for bonus or LTIP purposes.	Executive Directors receive a contribution or cash payment in lieu of this of up to 15% of salary.	None.

Directors' remuneration report continued

Directors' remuneration policy continued

Policy table continued

Element	Operation	Opportunity	Performance metrics
Share Incentive Plan (SIP)			
To provide market competitive benefits.	Open to all UK tax resident employees of participating Group companies with at least one year's service. Executive Directors are eligible to participate. The plan is an HMRC tax qualifying plan that allows an employee to purchase shares using gross pay. If an employee agrees to purchase shares, the Company matches purchased shares with an award of matching shares which are subject to continued employment for three years. Dividends accrue on purchased shares and matching shares.	Participants can purchase shares up to the limits allowed by the legislation from time to time (currently up to £1,800 per annum). Matching shares may be awarded up to the limits allowed by the legislation from time to time. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every three shares purchased.	None.
Benefits			
To provide market competitive benefits.	Benefits may include, but are not limited to, a car or car allowance and life insurance. In certain circumstances, the committee may also approve the provision of additional allowances relating to the relocation of an Executive Director and other expatriate benefits to perform his or her role.	While no maximum level of benefits has been set, the value of benefits provided is set at a level which the committee considers to be appropriately positioned taking into account the role and individual circumstances. Benefits provided are reviewed periodically. Benefits in respect of the year under review are disclosed in the annual report.	None.

Policy table continued

Element	Operation	Opportunity	Performance metrics
Annual bonus			
To provide an incentive to drive the Executive Directors to deliver stretching performance and growth.	Performance measures, targets and weightings are set by the committee at the start of the bonus period. At the end of each bonus period, the committee determines the extent to which targets have been achieved. The committee has the discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards to ensure that payments accurately reflect business performance over the performance period, e.g. in the event of unforeseen circumstances outside of management control. At the discretion of the committee, Executive Directors may be required to invest up to 40% of any after-tax amount in shares, to be held until the minimum shareholding requirement is met. Bonuses are subject to clawback as described on page 59.	For Executive Directors, the maximum annual bonus opportunity is up to 150% of base salary with the committee determining the actual level of opportunity each year within this limit. No bonus is payable until target performance is achieved. For target performance, the bonus level is up to 50% of the maximum payable for that year.	Performance is usually assessed on an annual basis, using a combination of the Group's main KPIs for the year. Measures may include financial and non-financial metrics as well as the achievement of personal objectives. A minimum of 80% of the bonus will be determined by financial objectives. The financial performance measure currently applied is Group adjusted profit; however, the committee has the discretion to adjust the performance measures and weightings to ensure that they continue to be linked to the delivery of Group strategy. The range of performance required under each measure is calibrated with reference to the Group's internal budgets and external expectations. Any individual element is based on the strength of the Executive's personal performance over the course of the year.

Policy table continued

Element	Operation	Opportunity	Performance metrics
Long Term Incentive Plan (LTIP)			
To drive sustained long-term business performance, aid retention and align the interests of Executive Directors with shareholders.	Awards are made in the form of conditional share awards or nil-cost options which vest subject to the achievement of pre-defined performance conditions measured over a three-year period. At the start of each performance period, the committee reviews award levels and performance conditions to ensure they remain appropriate and sets performance targets which it considers to be appropriately stretching. Following the end of the performance period and the vesting of any awards, Executive Directors are required to hold them for a further two years, subject to being permitted to dispose of shares to meet any resultant tax liability. During the holding period the shares are not subject to performance conditions. LTIP awards are subject to clawback as described on page 59.	The maximum award that may be granted to an Executive Director in respect of any financial year is 200% of salary. Ordinarily, awards are granted at the level of up to 100% of salary. Each year the committee determines the maximum LTIP opportunity, the measurement period and the threshold level. Threshold performance will result in up to 25% of maximum vesting for the period, set rising to full vesting for maximum levels of performance in accordance with the progression set by the committee for the period in question.	Awards vest subject to performance measures based on key financial metrics which may include, for example, measures based on EPS and shareholder returns. The committee has the discretion to adjust the performance measures and weightings to ensure that they continue to be linked to the delivery of Group strategy. The committee has the discretion to adjust the formulaic LTIP outcomes to ensure that payments accurately reflect business performance over the performance period.

Notes to the policy table

Performance measurement selection

The aim of the bonus plan is to reward key Executives over and above base salary for the achievement of business objectives. The bonus criteria are selected annually to reflect the Group's main KPIs for the year and are designed to encourage continuous performance improvement for the Group. Group financial performance targets relating to the bonus plan are set from the Group's annual budget, reviewed and signed off by the Group Board prior to the start of each financial year and taking into account external expectations. Adjusted operating profit is currently used as a KPI for the annual bonus plan because it is a clear measure of the underlying financial performance of the Group.

LTIP awards currently vest based on EPS growth over three years. EPS has been selected as it is a key measure of long-term performance for the Group and is closely aligned with the Group's strategic plans and with the profit attributable to shareholders. For the 2017 awards a relative total shareholder return (TSR) measure will be introduced for 20% of the award. For the LTIP, performance measures and targets are reviewed by the committee ahead of each grant and must be considered by the committee to be challenging but achievable.

Targets applying to the bonus and the LTIP are reviewed regularly, based on a number of internal and external reference points. Performance targets are set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year.

Notes to the policy table continued

Performance measurement selection continued

The committee retains the ability to adjust performance measures or targets if events occur (such as a change in Group strategy, a material acquisition and/or a divestment of a Group business, or a change in prevailing market conditions) which cause the committee to determine that measures are no longer appropriate and that an amendment is required so that they achieve their original purpose.

Awards under the LTIP and deferred share awards may be adjusted in the event of a variation of the Company's share capital or other relevant event in accordance with the terms of the awards.

Malus and clawback provisions

Clawback applies if the figures on which awards were based are shown to be inaccurate; or there is misconduct by the individual or action which has damaged the Group's reputation; or if there is significant deterioration in financial performance. These provisions apply for one year after the award of a bonus and during the two-year holding period for a vested LTIP.

Remuneration policy for other employees

The approach to annual salary reviews is consistent across the Group, with consideration given to individual performance, skills, experience and responsibility; Group performance and market conditions; and salary levels for similar roles in relevant comparators. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate. A senior management group of approximately 40 individuals is eligible to participate in the LTIP. Performance conditions are consistent for all participants, while award sizes vary by organisational level. Specific cash incentives are also in place to motivate, reward and retain staff below Board level. All UK-based employees are eligible to participate in the Group's SIP scheme on the same terms.

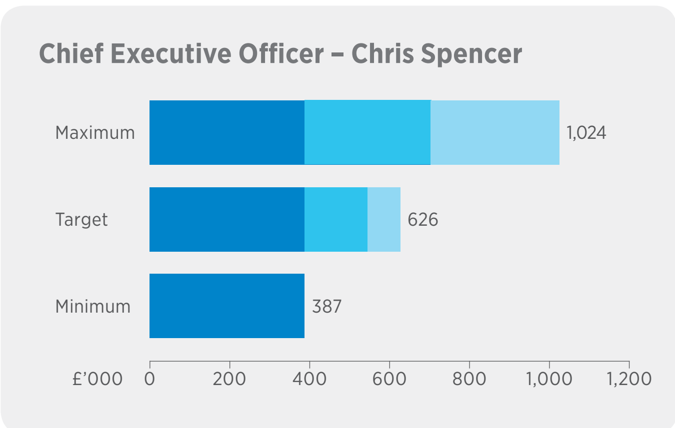
Shareholding guidelines

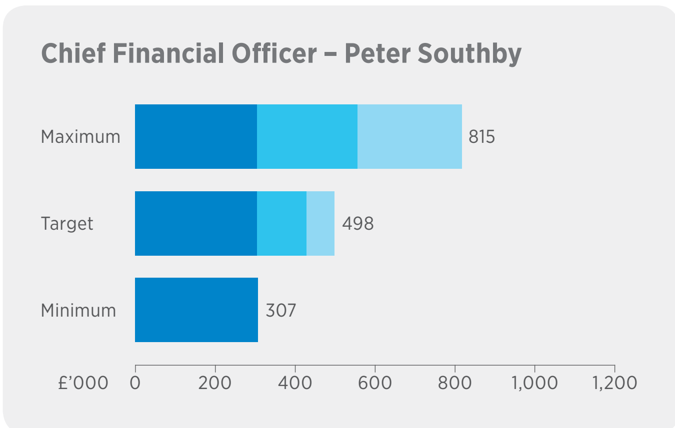
The committee continues to recognise the importance of Executive Directors aligning their interests with shareholders through building up a significant shareholding in the Company. Shareholding guidelines are in place requiring Executive Directors to acquire a minimum holding, equivalent to 200% of base salary for the Chief Executive Officer and 100% of base salary for the Chief Financial Officer. A Director is only permitted to dispose of shares if it does not take the holding below the relevant minimum level or if the disposal was to meet a tax or other liability created by the vesting of a share award. Different shareholding requirements may be set for any newly appointed Executive Director.

Unexercised share options do not count towards the shareholding requirement. Executive Directors are required to retain shares acquired under the LTIP (subject to sales to cover tax liabilities) until they have satisfied the guideline.

Pay scenario charts for Executive Directors

The charts below provide estimates of the potential future reward opportunity for each of the two current Executive Directors for 2017 and the potential split between different elements of remuneration under three different scenarios: "Minimum", "Target" and "Maximum" performance.





— Basic salary and benefits
— Bonus
— Long term incentives

Pay scenario charts for Executive Directors continued

Potential reward opportunities illustrated on page 59 are based on the remuneration policy, applied to the base salary as at 1 January 2017. It should be noted that LTIP awards granted in a year normally vest following the end of a three-year performance period and the projected value of LTIP amounts excludes the impact of share price movement over the vesting period. All other elements of actual pay delivered, however, will be influenced by the following factors:

	Component	"Minimum"	"Target"	"Maximum"
Fixed	Base salary	Latest known salary		
	Pension	Contribution rate applied to latest known salary		
	Other benefits	Benefits as provided in the single figure table on page 63		
Annual bonus		No bonus payable	50%	100%
LTIP		No LTIP vesting	25%	100%

Approach to recruitment remuneration – Executive Directors

When hiring or appointing a new Executive Director, the committee may make use of any or all of the existing components of remuneration, as follows:

Component	Approach	Maximum value
Base salary	The base salaries of new appointees will be determined by reference to the individual's role, responsibilities, experience and skills; relevant market data; internal relativities; and their current basic salary. Where new appointees have initial basic salaries set below market rate, any shortfall may be managed with phased increases over a period of years subject to their development in the role.	Not applicable.
Pension	New appointees will be eligible to receive a pension contribution in line with existing policy.	
SIP	New appointees will be eligible to participate in the Company's HMRC tax qualifying all-employee share scheme, in line with the policy.	
Benefits	New appointees will be eligible to receive benefits in line with the policy.	
Annual bonus	The annual bonus described in the policy table will apply to new appointees with the opportunity ordinarily being pro-rated to reflect the proportion of employment over the relevant performance period. Targets for the individual element will be tailored to the Executive.	Up to 150% of salary p.a.
LTIP	New appointees will be eligible for awards under the LTIP which will normally be on the same terms as awards made to other Executive Directors, as described in the policy table.	Up to 200% of salary p.a.

In determining appropriate remuneration for a new Executive Director, the committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that the pay arrangements are in the best interests of the Group and its shareholders.

The committee may include additional elements of pay which it considers appropriate in circumstances which may include: interim appointments; Non-executive Directors taking on an Executive function on a short-term basis; and where the timing of the recruitment means that it would be inappropriate to provide a bonus or LTIP opportunity for the year, in which case the quantum in respect of the opportunity for the year of recruitment may be transferred to the subsequent year in order that reward is provided on a fair and appropriate basis. However, the committee's discretion is not uncapped. As noted above, salary, pension and benefits will be provided in line with the existing policy and non-performance-related incentives (such as a "golden hello") will not be offered. The committee may alter the performance measures and vesting periods of incentive remuneration and the holding period for the LTIP to reflect the circumstances of the recruitment. The rationale for any exercise of this discretion will be explained in the following annual report on remuneration.

In addition to the above elements of remuneration, the committee may consider it appropriate to grant an award under a different structure in order to facilitate the recruitment of an individual, or to replace remuneration and/or incentive arrangements forfeited on leaving a previous employer.

Any "buyout awards" would typically have a fair value no higher than that of the awards forfeited. In doing so, the committee will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. Such awards would typically be subject to clawback.

In the event of the appointment of a new Executive Director by way of internal promotion, the remuneration committee will consistently apply the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements.

Approach to recruitment remuneration – Executive Directors continued

External appointments

It is the Board's policy to allow each Executive Director to take up one non-executive position on the board of another company, subject to the prior approval of the Board. Any fee earned in relation to outside appointments is retained by the Executive Director. No such positions were taken and so no such fees were paid during the financial year.

Service contracts

The Executive Directors are employed under contracts of employment with the Group. Executive Directors' contracts are available to view at the Company's Registered Office. The principal terms of the Executive Directors' service contracts are as follows:

			Notice period	
Executive Director	Position	Effective date of contract	From Company	From Director
Chris Spencer	Chief Executive Officer	3 July 2013	Twelve months	Twelve months
Peter Southby	Chief Financial Officer	1 October 2012	Twelve months	Twelve months

Remuneration policy for the Chairman and the Non-executive Directors

The Board determines the remuneration policy and the level of fees for the Non-executive Directors, within the limits set out in the Articles of Association. The remuneration committee recommends the remuneration policy and the level of fees for the Chairman of the Board.

The policy table below summarises the key components of remuneration for the Chairman and the Non-executive Directors.

Element	Operation	Opportunity	Performance metrics
Fees			
To reflect market competitive rates for the role, as well as individual performance and contribution.	The Chairman and Non-executive Directors receive a basic fee for their respective roles. Additional fees may be paid to Non-executive Directors for additional services such as chairing a Board committee or acting as the Senior Independent Non-executive Director. Expenses related to the Non-executive's duties, such as travel and accommodation or secretarial support, may also be reimbursed. Fees are reviewed annually with reference to information provided by remuneration surveys, the extent of the duties performed, time commitment and the size and complexity of the Group. Fee levels are benchmarked against sector comparators and appropriate listed companies of similar size and complexity.	Fee increases are applied in line with the outcome of the annual review. Fees for the year commencing 1 January 2017 are set out in the annual report on remuneration. There is no prescribed maximum fee. It is expected that increases to Non-executive Director fee levels will be in line with salaried employees over the life of the policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None.

Non-executive Directors' remuneration

In the case of hiring or appointing a new Non-executive Director, the committee will follow the policy as set out in the table above. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for additional services, such as chairing a Board committee.

Non-executive Directors' service contracts

Letters of appointment are provided to the Chairman and the Non-executive Directors. Non-executive Directors have letters of appointment effective for a period of three years and are subject to annual re-election at the AGM. Non-executive Directors' letters of appointment are available to view at the Company's Registered Office.

Directors' remuneration report continued

Directors' remuneration policy continued

Non-executive Directors' service contracts continued

Non-executive Directors' letters of appointment and the unexpired period of their appointments (where appropriate after extension by re-election) are set out below:

Non-executive Director	Date of first appointment	Unexpired term as at 31 December 2016	Date of last appointment	Last re-appointment at AGM	Notice period
Mike O'Leary[1]	17 March 2011	3 months	17 March 2014	26 April 2016	3 months
Robin Taylor[1]	1 March 2010	2 months	1 March 2014	26 April 2016	3 months
Kevin Boyd[1]	9 May 2014	4 months	9 May 2014	26 April 2016	3 months
Andy McKeon	1 February 2013	1 year 9 months	21 September 2015	26 April 2016	3 months
David Sides	1 January 2017	3 years	1 January 2017	—	3 months

1 At the Board meeting on 22 February 2017 the re-appointment of Mike O'Leary and Kevin Boyd for a further term of three years and Robin Taylor for two years was agreed.

Exit payment policy

The Company's policy is to limit any payment made to a departing Director to contractual arrangements and to honour any pre-established commitments. A payment in lieu of notice (consisting of salary, benefits and pension contributions for the relevant portion of the notice period) may be made. As part of this process, the committee will take into consideration the Executive Director's duty to mitigate any loss.

The table below summarises how the awards under the bonus scheme and the LTIP are typically treated in different leaver scenarios or a change of control. Whilst the committee retains overall discretion on determining "good leaver" status, it typically defines a "good leaver" in circumstances such as retirement with the consent of the Company, ill health, disability, death or redundancy. Final treatment is subject to the committee's discretion. The holding period that applies to vested LTIP awards ceases when an individual ceases employment with the Group.

Reason for leaving	Timing of vesting	Treatment of awards
Annual bonus		
"Good leaver"	Usually paid at the same time as continuing employees. Pro-rata payments may also be made early on compassionate grounds to a "good leaver".	Eligible for an award to the extent that performance targets are reasonably judged to be likely to be satisfied and the award is pro-rated for the proportion of the financial year served.
"Bad leaver"	No annual bonus payable.	Not applicable.
Change of control	Paid immediately on the effective date of change of control.	Eligible for an award to the extent that performance targets are satisfied at the date of change of control and the award is pro-rated for the proportion of the financial year served to the effective date of change of control.
LTIP		
"Good leaver" – awards which have not yet vested	Continue until the normal vesting date or vest immediately, at the discretion of the committee. In the event of death of a participant, the award would vest immediately.	Outstanding awards vest to the extent the performance conditions are reasonably considered to be likely to be satisfied, and the awards are pro-rated to reflect the length of the performance period served unless the committee decides otherwise. In the event of the death of a participant during the performance period, the award would vest in full.
"Bad leaver"	Outstanding awards are forfeited.	Not applicable.
Change of control	Vest immediately on the effective date of change of control.	Outstanding awards vest subject to the satisfaction of performance conditions or to the extent these are reasonably considered likely to be satisfied as at the effective date of change of control, and the award is pro-rated for the proportion of the performance period served to the effective date of change of control unless the committee decides otherwise.

Annual report on remuneration

The following section provides details of how the remuneration policy was implemented during the financial year ended 31 December 2016.

Remuneration committee membership in 2016

The committee met six times during the year under review. The members of the committee and their attendance record at meetings during the year are set out on page 43. David Sides joined the committee with effect from 1 January 2017.

During the year, the committee sought internal support from the Chief Executive Officer and the Chief Financial Officer, who attended committee meetings by invitation from the Chairman to advise on specific questions raised by the committee and on matters relating to the performance and remuneration of senior managers where it was considered that their attendance would make a significant contribution. The Chief Executive Officer and the Chief Financial Officer were not present for any discussions that related directly to their own remuneration. The Company Secretary attended each meeting as Secretary to the committee.

Independent advice

In undertaking its responsibilities, the committee seeks independent external advice as necessary. The committee evaluates the support provided by its advisers on a regular basis and during the year appointed Deloitte as its principal external adviser. Deloitte is available to provide independent advice on a wide range of remuneration matters including current market practice, benchmarking of Executive pay, LTIP performance measures, the remuneration policy and incentive scheme design. Deloitte has also been appointed as tax adviser to the Group.

The committee is satisfied that the Deloitte team provides independent remuneration advice to the committee. Deloitte is a member and signatory of the Code of Conduct for Remuneration Consultants, in the United Kingdom, details of which can be found at www.remunerationconsultantsgroup.com.

Summary of shareholder voting at the 2016 AGM

There was an advisory vote on the Directors' remuneration report at the AGM in 2016. The result of the vote was published on the website after the meeting. Of the 43,006,637 votes cast, 41,493,864 (96.5%) of the votes were for the resolution, with 1,512,773 (3.5%) against and 1,482,212 votes withheld.

Single total figure of remuneration for Executive Directors – audited

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2016 and the prior year:

	Chris Spencer £'000		Peter Southby £'000	
	2016	2015	**2016**	2015
Base salary	**318**	312	**250**	225
Taxable benefits[1]	**20**	28	**15**	16
Pension[2]	**48**	47	**38**	34
Annual bonus[3]	**—**	—	**—**	—
Share schemes[4,5]	**8**	1	**13**	102
Total	**394**	388	**316**	377

1 Taxable benefits consist primarily of a company car and private fuel benefit.

2 Pension: during the year the Executive Directors received 15% of base salary as employer contributions. At the request of Peter Southby £28,000 of his employer pension contributions were commuted to a cash payment in accordance with the remuneration policy.

3 Annual bonus: this is the total bonus earned in respect of performance during the relevant year. Annual bonuses are received in cash. Further details of annual bonus awards for 2016 can be found in the report of the remuneration committee on page 64.

4 Details of options exercised are provided on page 64.

5 The total amount shown includes the value of matching shares awarded under the SIP.

Directors' remuneration report continued

Annual report on remuneration continued

Single total figure of remuneration for Non-executive Directors – audited

The table below sets out a single figure for the total remuneration received by each Non-executive Director for the year ended 31 December 2016 and the prior year:

	Base fee £'000		Committee chairmanship fees £'000		Total £'000	
	2016	2015	**2016**	2015	**2016**	2015
Mike O'Leary	**85**	80	**5**	—	**90**	80
Robin Taylor	**40**	35	**5**	8	**45**	43
Andy McKeon[1]	**40**	18	**5**	2	**45**	20
Kevin Boyd	**40**	35	**—**	—	**40**	35
Sean Riddell[2]	**—**	3	**—**	—	**—**	3

1 Andy McKeon resigned as a Director on 2 April 2015 and was re-appointed on 30 September 2015.

2 Sean Riddell resigned as a Director on 30 January 2015.

Incentive outcomes for the year ended 31 December 2016

Bonus

During the year ended 31 December 2016, Executive Directors were eligible to receive a bonus of up to 100% of salary, depending on the level of Group adjusted profit achieved. Target performance was calibrated to deliver a bonus of 50% of maximum, with no payment for below threshold performance. Bonuses are paid entirely in cash and are subject to clawback. Corporate targets set by the committee require Executive Directors to deliver significant stretching performance to achieve maximum bonus.

Performance during the year did not reach the level required for target performance. The remuneration committee reviewed the results and, in line with the rules, concluded that no bonus payments would be made for the year under review.

For 2016 the targets were as follows:

- 0% of salary if the Group adjusted operating profit was below £41.121m;
- 50% of salary if the Group adjusted operating profit was or exceeded £41.121m; and
- if the Group adjusted operating profit was greater than £41.121m then the bonus would increase pro rata to Group adjusted profit up to a maximum of 100% at £44.416m.

Long-term incentive awards vesting

Chris Spencer exercised options over:

- 1 June 2016 over 1,369 ordinary shares at a price of £7.30 per ordinary share under a share option plan granted on 2 May 2013 and disposed of 942 ordinary shares at a price of £10.62 per ordinary share to fund the exercise price; and
- 3 November 2016 over 1,524 ordinary shares at a price of £6.56 per ordinary share under a share option plan granted on 18 October 2013 and disposed of 1,198 ordinary shares at a price of £8.35 per ordinary share to fund the exercise price.

Peter Southby exercised the following options on 3 November 2016:

- 6,853 ordinary shares at a price of £7.09 per ordinary share under an LTIP option contract granted on 2 May 2013 and disposed of 6,306 ordinary shares at a price of £8.35 per ordinary share to fund the exercise price and tax and national insurance obligations;
- 1,369 ordinary shares at a price of £7.30 per ordinary share under a share option plan granted on 2 May 2013 and disposed of 1,197 ordinary shares at a price of £8.35 per ordinary share to fund the exercise price; and
- 1,524 ordinary shares at a price of £6.56 per ordinary share under a share option plan granted on 18 October 2013 and disposed of 1,198 ordinary shares at a price of £8.35 per ordinary share to fund the exercise price.

With the exception of the LTIP options granted to Peter Southby on 2 May 2013 which were subject to TSR performance criteria, none of the above options exercised during the year were subject to performance criteria. These were the last such awards without performance conditions. All awards made from 2014 have been subject to performance conditions. All of the above ordinary shares were acquired by JY Trustees Limited on behalf of the EMIS Group plc Employee Benefit Trust.

Scheme interests awarded in 2016

2016 Long Term Incentive Plan

In 2016, the following nil cost option awards were granted under the LTIP:

Executive Director	Date of grant	Shares granted	Market price at date of award	Normal vesting date	Face value at date of award
Chris Spencer	26 April 2016	32,808	970p	26 April 2019	£318,000
Peter Southby	26 April 2016	25,773	970p	26 April 2019	£250,000

Performance conditions for 2016 awards

Performance level	EPS three year growth target	% award to vest
Below threshold	Below 22.5%	0%
Base target threshold	22.5%	25%
Middle target threshold	33.1%	50%
Maximum target threshold	52.1% or higher	100%

To the extent that the base target threshold is exceeded, the percentage of award shares vesting increases pro rata between the base target and the middle target and similarly between the middle target and the maximum target.

2016 SIP awards

During the year under review, the Executive Directors were awarded matching shares under the SIP as a result of their own personal contributions in acquiring partnership shares. The value of these was less than £1,000 each. There were no performance conditions attached to the SIP awards. The Executive Directors participate in the SIP to the maximum extent permitted by the HMRC. The Company offers one matching share for every three partnership shares purchased by employees.

Ad hoc payments

There were no ad hoc payments to any Directors for the year ended 31 December 2016.

Payments to past Directors

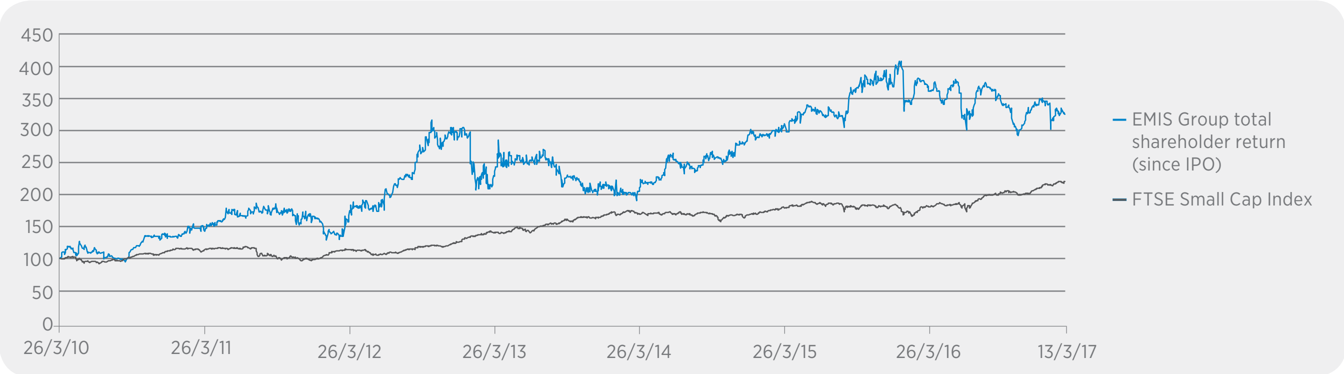
There were no payments to past Directors for the year ended 31 December 2016.

Relative importance of spend on pay

The table below shows the Group's expenditure on shareholder distributions (including dividends) and total employee pay expenditure for the financial years ending 31 December 2015 and 31 December 2016.

	Total employee expenditure	Distributions to shareholders
2016	**£77.2m**	**£14.7m**
2015	£74.1m	£13.3m
% change	4%	10%

TSR performance



The graph above compares the value of £100 invested in EMIS Group plc shares, including re-invested dividends, with the FTSE Small Cap Index since 26 March 2010, which is the date of admission to trading on AIM. This index was selected because it is considered to be the most appropriate against which the total shareholder return of the Group should be measured.

Directors' interests

The beneficial interests of the Directors in the ordinary shares of the Company, including those acquired through the SIP, as at 31 December 2016 were as follows:

Director	Ordinary shares at 31 December 2016	Ordinary shares at 31 December 2015
Chris Spencer	288,189[1]	285,369
Peter Southby	12,059[1]	9,878
Mike O'Leary	1,000	1,000
Robin Taylor	1,800	1,800
Andy McKeon	1,626	1,626
Kevin Boyd	4,000	2,500

1 This includes matching shares awarded under the SIP which may be subject to forfeiture under certain circumstances.

Since the year end further share awards under the SIP have continued to be awarded each month to the Executive Directors, for which monthly regulatory information service announcements are made. This has resulted in Chris Spencer holding an additional 67 shares and Peter Southby holding an additional 65 shares, which include matching shares awarded under the SIP which may be subject to forfeiture in certain circumstances.

Implementation of remuneration policy for 2017

Base salary

The base salaries for the Executive Directors in 2017 are set out in the table below. The letter from the Chairman of the remuneration committee on pages 53 and 54 includes further detail.

Executive Director	Base salary from 1 January 2016 to 31 December 2016	Base salary from 1 January 2017 to 31 December 2017	Percentage increase
Chris Spencer	£318,240	£318,240	—
Peter Southby	£250,000	£253,750	1.5

Pension

For 2017, Executive Directors will receive a contribution equivalent to 15% of base salary.

Annual bonus

The performance measure for the annual bonus for Executive Directors will be unchanged for the 2017 financial year and will operate on the same basis as in 2016. The bonus outcome will be based on an adjusted operating profit measure. Adjusted profit means operating profit as adjusted for exceptional items, investment in Patient, any mergers and acquisitions activity in the year, the effect of capitalisation and amortisation of development costs, and the amortisation of acquired intangible assets. For 2017, the Executive Directors' annual bonus opportunity will be up to 100% of salary.

Proposed targets have been set to be challenging relative to the 2017 business plan. As specific targets are deemed to be commercially sensitive they will be published retrospectively in the annual report on remuneration for 2017.

Bonus payments will continue to be delivered in cash and will continue to be subject to the following conditions:

- Clawback where the remuneration committee becomes aware of any information on the basis of which it is reasonable for them to form the opinion that inaccurate figures had been reported, on which the bonus target had been calculated and based or bonus outcome calculated; or there had been misconduct; or there had been any action or omission that had resulted in damage to the Group's reputation; or there is a significant deterioration in financial performance.
- The requirement to invest 40% of any net bonus payment in shares of the Company until the minimum shareholding level relevant to the Executive Director is met.

LTIP

For 2017, Executive Directors will be eligible to receive awards of performance shares up to 100% of salary, based on EPS growth over three years and vesting three years from the date of grant and 20% will be based on relative TSR performance. Details of any awards in the 2017 financial year will be provided in next year's annual report on remuneration.

Executive Directors are subject to the requirement to use vested shares to add to their beneficial shareholding until the minimum shareholding level relevant to the Executive Director is met.

SIP

Executive Directors will be able to continue to participate in the SIP on the same basis as in the 2016 financial year.

Chairman and Non-executive Director fees

Fee levels of the Chairman and the Non-executive Directors are subject to annual review taking into account appropriate FTSE comparators and the level of engagement of the Chairman and other Non-executive Directors. The Board agreed that no change be made to the fees payable in 2017.

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2016.

This report contains certain statutory, regulatory and other information and incorporates, by reference, certain disclosures included earlier in this document.

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 a number of trading subsidiary companies. The principal trading subsidiaries are:

- Egton Medical Information Systems Limited and Ascribe Limited, trading under the EMIS Health and Egton brands;
- Digital Healthcare Limited, trading as EMIS Health Specialist;
- Medical Imaging UK Limited and MIDRSS Limited, trading as EMIS Care;
- Rx Systems Limited, trading as EMIS Health Community Pharmacy; and
- with effect from 1 January 2017, Patient Platform Limited was established as a principal trading subsidiary, carrying on the business of Patient.info, which previously operated as part of Egton Medical Information Systems Limited.

EMIS Group is the UK leader in connected healthcare software and services. Its solutions are widely used across every major UK healthcare setting from primary and community care, to high street pharmacies, secondary care and specialist services. EMIS Group helps clinicians in over 10,000 organisations share vital information, facilitating better, more efficient healthcare and supporting longer and healthier lives.

EMIS Group serves a number of healthcare markets under the EMIS Health brand, with the below divisions:

- Primary & Community Care, the UK leader in clinical IT systems for GPs and commissioners. EMIS Health products, including the flagship EMIS Web, hold over 40 million patient records and are used by nearly 6,000 healthcare organisations, including community-based teams.
- Secondary & Specialist Care, a leading software provider to NHS Acute Trusts and Boards, focussed primarily on hospital pharmacy, A&E (holding over 30 million patient records) and patient administration systems as well as England's leading provider of diabetic eye screening software, and other ophthalmology-related solutions.
- Community Pharmacy, the UK's single most used integrated community pharmacy dispensary and retail system.

These markets are also supported by other EMIS Group businesses:

- under the Patient brand, the UK's leading independent provider of patient-centric medical and well-being information and related transactional services.
- under the Egton brand, providing specialist ICT infrastructure, hardware and engineering services, and non-clinical software into health and social care.
- under the EMIS Care brand, providing healthcare screening programmes such as diabetic eye screening.

Primary & Community Care and EMIS Health Secondary Care are being brought together in 2017 under the EMIS Health brand.

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.

Capital allocation policy

EMIS Group seeks to deliver high quality visible earnings, future earnings growth and strong cash returns. The Board has adopted a clear capital allocation policy:

- reinvestment for growth – we invest in the infrastructure, technology and intellectual capital to drive growth in our core markets, through constant product innovation and integration.
- regular returns to shareholders – we pay a regular dividend to shareholders, representing 40% to 50% of adjusted earnings, increasing the proposed full year dividend for 2016 by 10%.
- acquisition – we supplement our organic growth by acquiring companies with promising technologies and in markets adjacent to, and consistent with, our current capabilities, such as Intrelate in 2016.
- balance sheet leverage and return of excess capital – we will maintain an efficient balance sheet, appropriate to our investment requirements. While we are prepared to take on additional debt if circumstances warrant, we aim to return excess capital to shareholders when appropriate.

Dividends

Subject to shareholder approval at the AGM on 28 April 2017, the Board proposes paying a final dividend of 11.7p per ordinary share (2016: 10.6p) on 3 May 2017 to shareholders on the register at the close of business on 31 March 2017. This would make a total dividend of 23.4p per ordinary share for 2016 (2015: 21.2p).

Substantial interests in shares

The Company has been notified of the following substantial interests in 3% or more in its ordinary shares:

	31 December 2016 %	1 March 2017 %
Liontrust Investment Partners LLP	9.02	9.92
Primestone Capital	8.50	8.50
Standard Life Investments	8.17	5.25
NFU Mutual Insurance Society Ltd	4.98	4.98
Octopus Investments Nominees Ltd	4.35	4.58
Phillip Woodrow	4.18	4.18
GVQ Investment Management	3.42	3.42
Invesco	3.14	6.06
Wise Investment	3.01	3.63

Directors and their interests

The Directors of the Company who served during the year ended 31 December 2016 and subsequently are as follows:

Mike O'Leary
Chairman

Chris Spencer
Chief Executive Officer

Peter Southby
Chief Financial Officer

Robin Taylor
Senior Independent Non-executive Director

Kevin Boyd
Independent Non-executive Director

Andy McKeon
Independent Non-executive Director

David Sides (appointed 1 January 2017)
Independent Non-executive Director

Directors are subject to annual re-election and details of Directors' remuneration, service agreements and interests in the share capital of the Company are given in the annual report on remuneration on pages 63 to 66.

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.

Research and development

Research and development expenditure in the year amounted to £17.3m (2015: £19.6m) of which £5.7m (2015: £6.2m) was capitalised.

Share capital

As at 15 March 2017 and 31 December 2016, the Company had 63,311,396 (31 December 2015: 63,311,396) ordinary shares of 1p each in issue. The shares are traded on AIM, a market operated by the London Stock Exchange. 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 SIP. As at 31 December 2016 the EBT held 464,867 (2015: 540,034) ordinary shares of 1p 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 26 to the financial statements.

The rules of the LTIP and the CSOP set out the consequences in the event of a change of control. Further information is given in the remuneration committee report on page 62.

Directors' indemnities and liability insurance

As permitted by the Articles of Association, in accordance with Section 234 of the Companies Act 2006, 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 and officers in respect of any fraudulent or dishonest actions. No such indemnities have been granted. The Company maintains directors' and officers' liabilities insurance to provide appropriate cover for any legal action brought against its Directors.

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, ethnicity, race, religion and belief, sexual orientation, disability and marital status. All employees are treated fairly and equally.

The Group encourages the involvement of its employees and they are made aware of significant matters through regular updates from the Chief Executive Officer and other members of the GXB, roadshow presentations, management meetings, informal briefings, team meetings and the Company's intranet, magazine, discussion forums and website. Employee involvement is an essential element in the development of the business and during the year the second staff survey was carried out for all employees to have their say about what it feels like to work for EMIS Group.

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.

Political donations

No political donations were made in 2016 (2015: £nil).

Going concern

The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the strategic report on pages 1 to 35. The revenue, trading results and cash flows are explained in the financial review on pages 28 to 31.

Note 3 to the financial statements sets out the Group's financial risks and the management of capital risks.

The Group is profitable and expects to continue to be so, with significant cash resources, a high and continuing level of recurring revenue and with high levels of cash conversion expected for the foreseeable future.

The Group's current bank debt facilities expire on 30 June 2017, with two final quarterly term loan repayments of £1m each to be made before then. A process is underway to ensure appropriate facilities (covering both credit facilities and transactional banking) are in place for the Group from this point forward. The latest cash flow projections for the Group indicate that it will be in a net cash position at 30 June 2017.

The Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for the next three years, the Directors believe that the Group 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 28 April 2017, together with an explanation of the resolutions to be proposed at the meeting, is contained in a separate circular to shareholders and may be found on the Company's website at www.emisgroupplc.com/investors.

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. All of the Directors have individually 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, KPMG LLP, has indicated its willingness to be re-appointed and, in accordance with Section 489 of the Companies Act 2006, a resolution for re-appointment will be proposed at the AGM.

Corporate governance and employee information

The Company's statement on corporate governance can be found in the corporate governance report on pages 38 to 45 of this annual report and accounts. The Sustainability Policy report, on pages 32 to 35 includes details about the Company's pay practices. The corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

By order of the Board

Simon Waite
Company Secretary
15 March 2017

Viability statement

While there is no requirement for the Group to comply fully with the UK Corporate Governance Code, the Directors have voluntarily adopted the provision of section C.2.2 and assessed the viability of the Group over a three year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out above.

The Directors have determined that a three year period to March 2020 constitutes an appropriate period over which to provide the Group's viability statement. This is the period focussed on by the Board during the strategic planning process and is also aligned to typical contract lengths across much of the Group (three to five years).

For the purpose of making this statement, the Board has taken into account its ongoing robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Each year, the Board considers a three year bottom-up strategic plan together with the ability of the Group to raise finance and undertake mitigating actions to avoid or reduce the impact or occurrence of the underlying risks.

In addition, the following risks were subjected to enhanced stress testing: healthcare structure and procurement changes, product integration and inter-operability, software development and hosting, recruitment and retention, and information governance/cyber-security. The Group's strong contractual forward visibility of revenues, significant cash resources and strong cash conversion provide some inherent protection against unexpected shocks to the business model. Also, the ability to adjust the Group's cost base protects its viability in the face of adverse economic conditions and/or political events. Based upon the robust assessment of the principal risks facing the Group and their stress-testing based on an assessment of the Group's prospects, as described above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020, subject to the following key assumptions:

- funding for the business will continue to be available in all plausible market conditions;
- mitigating actions to reduce the impact of principal risks can be successfully undertaken, including cost management; and
- the political environment in which the NHS exists will not result in major structural change to the market in which the Group operates.

Statement of Directors' responsibilities

in respect of the annual report, the strategic report, the Directors' report and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as 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 parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, a Directors' report, a Directors' remuneration report and a corporate governance statement that comply with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Independent auditor's report

to the members of EMIS Group plc

We have audited the financial statements of EMIS Group plc for the year ended 31 December 2016 set out on pages 72 to 101. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 explained more fully in the Directors' Responsibilities Statement set out on page 70, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA
15 March 2017

Group statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue	5	**158,712**	155,898
Costs:			
Changes in inventories		**609**	(344)
Cost of goods and services		**(14,760)**	(12,611)
Staff costs[1]	9	**(71,197)**	(67,465)
Other operating expenses[2]		**(31,750)**	(45,873)
Depreciation of property, plant and equipment		**(4,504)**	(4,665)
Amortisation of intangible assets	14	**(13,571)**	(13,510)
Adjusted operating profit		**38,753**	36,553
Development costs capitalised	9, 14	**5,684**	6,183
Amortisation of intangible assets[3]	14	**(12,652)**	(12,806)
Cost reduction programme[4]		**(3,630)**	—
Impairment of goodwill	13	**(4,616)**	(16,183)
Impairment of investment	17	**—**	(2,317)
Operating profit	6	**23,539**	11,430
Finance income	7	**188**	28
Finance costs	8	**(425)**	(477)
Share of result of associate	17	**—**	(388)
Share of result of joint venture	17	**499**	339
Gain on sale of associate	17	**1,532**	—
Profit before taxation		**25,333**	10,932
Income tax expense	10	**(5,208)**	(5,558)
Profit for the year		**20,125**	5,374
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**27**	(111)
Other comprehensive income		**27**	(111)
Total comprehensive income for the year		**20,152**	5,263
Attributable to:			
– equity holders of the parent		**19,128**	4,432
– non-controlling interest in subsidiary company		**1,024**	831
Total comprehensive income for the year		**20,152**	5,263

Earnings per share attributable to equity holders of the parent		**Pence**	Pence
Basic	11	**30.4**	7.2
Diluted	11	**30.3**	7.2

1 Including cost reduction programme costs of £3,387,000 (2015: £nil).

2 Including contract asset depreciation of £1,955,000 (2015: £3,175,000), cost reduction programme costs of £243,000 (2015: £nil), goodwill impairment of £4,616,000 (2015: £16,183,000) and investment impairment of £nil (2015: £2,317,000).

3 Excluding amortisation of computer software used internally of £919,000 (2015: £704,000).

4 The cost reduction programme relates to redundancy and restructuring costs, primarily within the Secondary & Specialist Care segment.

The notes on pages 76 to 101 are an integral part of these consolidated financial statements.

Group and parent company balance sheets

as at 31 December 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
ASSETS					
Non-current assets					
Goodwill	13	**50,336**	54,388	**–**	–
Other intangible assets	14	**60,617**	66,995	**3,729**	1,801
Property, plant and equipment	15	**22,187**	22,032	**–**	–
Investments in subsidiaries	16	**–**	–	**67,356**	70,380
Investment in joint venture and associate	17	**152**	131	**–**	–
		133,292	143,546	**71,085**	72,181
Current assets					
Inventories	18	**1,815**	1,206	**–**	–
Trade and other receivables	19	**39,970**	33,893	**3,264**	3,506
Cash and cash equivalents	30	**4,303**	4,701	**–**	–
Amounts owed by subsidiary companies		**–**	–	**47,623**	44,960
		46,088	39,800	**50,887**	48,466
Total assets		**179,380**	183,346	**121,972**	120,647
LIABILITIES					
Current liabilities					
Trade and other payables	21	**(21,089)**	(17,777)	**(926)**	(1,049)
Current tax liabilities		**(1,918)**	(3,183)	**–**	–
Bank loans	22, 30	**(1,951)**	(5,402)	**(1,951)**	(5,402)
Bank overdraft	22, 30	**(2,782)**	(6,457)	**(11,168)**	(7,756)
Amounts owed to subsidiary companies		**–**	–	**(34,072)**	(28,678)
Contingent acquisition consideration		**–**	(3,000)	**–**	(3,000)
Deferred income		**(28,418)**	(28,000)	**–**	–
		(56,158)	(63,819)	**(48,117)**	(45,885)
Non-current liabilities					
Bank loans	22, 30	**–**	(1,951)	**–**	(1,951)
Deferred tax liability	24	**(9,080)**	(10,530)	**–**	–
		(9,080)	(12,481)	**–**	(1,951)
Total liabilities		**(65,238)**	(76,300)	**(48,117)**	(47,836)
NET ASSETS		**114,142**	107,046	**73,855**	72,811
EQUITY					
Ordinary share capital	25	**633**	633	**633**	633
Share premium	25	**51,045**	51,045	**51,045**	51,045
Own shares held in trust		**(2,275)**	(2,929)	**–**	–
Retained earnings		**58,239**	52,848	**19,958**	18,914
Other reserve		**2,027**	2,000	**2,219**	2,219
Equity attributable to owners of the parent		**109,669**	103,597	**73,855**	72,811
Non-controlling interest		**4,473**	3,449	**–**	–
TOTAL EQUITY		**114,142**	107,046	**73,855**	72,811

The notes on pages 76 to 101 are an integral part of these consolidated financial statements.

The financial statements on pages 72 to 101 were approved by the Board of Directors and authorised for issue on 15 March 2017 and are signed on its behalf by:

Chris Spencer
Chief Executive Officer

Peter Southby
Chief Financial Officer

Group and parent company statements of cash flows

for the year ended 31 December 2016

		Group		Company	
	Notes	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Cash generated from operations	29	**43,657**	42,711	**(1,757)**	(996)
Finance costs		**(328)**	(450)	**(292)**	(443)
Finance income		**4**	28	**6**	—
Tax paid		**(7,655)**	(6,896)	**714**	197
Net cash generated from/(used in) operating activities		**35,678**	35,393	**(1,329)**	(1,242)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(5,413)**	(6,145)	**—**	—
Proceeds from sale of property, plant and equipment		**527**	644	**—**	—
Development costs capitalised		**(5,684)**	(6,183)	**—**	—
Purchase of software		**(987)**	(1,730)	**(1,928)**	(1,017)
Increase/(decrease) in loan from subsidiary company		**—**	—	**3,204**	(14,332)
Dividends received		**400**	—	**20,000**	42,890
Business combinations		**(3,849)**	(5,231)	**(4,045)**	(5,715)
Proceeds from sale of associate		**1,532**	—	**—**	—
Net cash (used in)/generated from investing activities		**(13,474)**	(18,645)	**17,231**	21,826
Cash flows from financing activities					
Increase in loan to Employee Benefit Trust		**—**	—	**192**	784
Transactions in own shares held in trust		**579**	589	**—**	—
Bank loan repayments		**(5,500)**	(11,500)	**(5,500)**	(11,500)
Non-controlling interest dividend paid		**—**	(2,110)	**—**	—
Dividends paid		**(14,006)**	(12,422)	**(14,006)**	(12,422)
Net cash used in financing activities		**(18,927)**	(25,443)	**(19,314)**	(23,138)
Net increase/(decrease) in cash and cash equivalents		**3,277**	(8,695)	**(3,412)**	(2,554)
Cash and cash equivalents at beginning of year		**(1,756)**	6,939	**(7,756)**	(5,202)
Cash and cash equivalents at end of year	30	**1,521**	(1,756)	**(11,168)**	(7,756)

Group cash and cash equivalents of £1,521,000 comprise cash of £4,303,000 and a bank overdraft of £2,782,000.

The notes on pages 76 to 101 are an integral part of these consolidated financial statements.

Group and parent company statements of changes in equity

for the year ended 31 December 2016

Group	Share capital £'000	Share premium £'000	Own shares held in trust £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2015	633	51,045	(3,718)	60,109	2,111	4,728	114,908
Profit for the year	—	—	—	4,543	—	831	5,374
Transactions with owners							
Share acquisitions less sales	—	—	789	(200)	—	—	589
Share-based payments	—	—	—	684	—	—	684
Deferred tax in relation to share-based payments	—	—	—	134	—	—	134
Dividends paid (note 12)	—	—	—	(12,422)	—	(2,110)	(14,532)
Other comprehensive income							
Currency translation differences	—	—	—	—	(111)	—	(111)
At 31 December 2015	633	51,045	(2,929)	52,848	2,000	3,449	107,046
Profit for the year	—	—	—	19,101	—	1,024	20,125
Transactions with owners							
Share acquisitions less sales	—	—	654	(75)	—	—	579
Share-based payments	—	—	—	473	—	—	473
Deferred tax in relation to share-based payments	—	—	—	(102)	—	—	(102)
Dividends paid (note 12)	—	—	—	(14,006)	—	—	(14,006)
Other comprehensive income							
Currency translation differences	—	—	—	—	27	—	27
At 31 December 2016	**633**	**51,045**	**(2,275)**	**58,239**	**2,027**	**4,473**	**114,142**

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserve £'000	Total equity £'000
At 1 January 2015	633	51,045	5,068	2,219	58,965
Profit for the year	—	—	25,784	—	25,784
Transactions with owners					
Share acquisitions less sales	—	—	(200)	—	(200)
Share-based payments	—	—	684	—	684
Dividends paid (note 12)	—	—	(12,422)	—	(12,422)
At 31 December 2015	633	51,045	18,914	2,219	72,811
Profit for the year	—	—	14,652	—	14,652
Transactions with owners					
Share acquisitions less sales	—	—	(75)	—	(75)
Share-based payments	—	—	473	—	473
Dividends paid (note 12)	—	—	(14,006)	—	(14,006)
At 31 December 2016	**633**	**51,045**	**19,958**	**2,219**	**73,855**

The notes on pages 76 to 101 are an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2016

1. 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.

1.1 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, interpretations issued by the IFRS Interpretations Committee 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 Group is profitable and it is anticipated that this will continue. There is a high and continuing level of recurring revenue and high cash conversion is anticipated for the foreseeable future.

After careful enquiry and review of available financial information, including projections of profitability and cash flows, the Directors believe that the Group 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.

The preparation of financial statements in conformity with IFRS requires the use of certain 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 2.

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

1.2 Parent company statement of comprehensive income

As permitted by Section 408 of the Companies Act 2006, the parent company has not presented its own statement of comprehensive income. The profit of the parent company for the year was £14,652,000 (2015: £25,784,000).

1.3 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The Group has adopted the following new standards and amendments for the first time. Unless otherwise stated, they have not had a material impact on the financial statements.

- Annual Improvements to IFRSs – 2012–2014 Cycle.
- Disclosure Initiative – Amendments to IAS 1.

(b) Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 ‘Financial Instruments’ (effective date 1 January 2018).
- IFRS 15 ‘Revenue from Contracts with Customers’ (effective date 1 January 2018).
- IFRS 16 ‘Leases’ (effective date 1 January 2019).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

1. Summary of significant accounting policies continued

1.4 Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December 2016.

Subsidiaries

Subsidiaries are entities that the Company has power over, exposure or rights to variable returns and an ability to use its power to affect those returns. 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. Accounting policies previously applied by acquired subsidiaries are changed as necessary to comply with accounting policies adopted by the Group.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

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.

The EMIS Group plc Employee Benefit Trust is treated as a separate legal entity within the Group consolidation.

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 relevant 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.

1.5 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 main Board.

Notes to the financial statements continued

for the year ended 31 December 2016

1. Summary of significant accounting policies continued

1.6 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, 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 and software support and other support services is recognised on a straight-line basis over the period of supply. Licence fees that form part of long-term software installation contracts (principally within the Secondary & Specialist Care segment) are spread over the implementation phase of these contracts (in line with the period over which the service is provided) according to the hours worked on the implementation, to best represent the period over which the vendor obligations are satisfied. Secondary & Specialist Care service contract revenues are recognised as delivered over the period of supply.
- Revenue from hosting services, principally under the General Practitioner Systems of Choice (GPSoC) framework, is recognised as follows:
  - Provision of infrastructure and hardware – over the period that the service is provided, in line with the anticipated life of the related assets as capitalised within property, plant and equipment.
  - Other services are recognised over the period of supply or when delivered as appropriate.
- Revenue from hardware sales is recognised when ownership passes.
- Revenue from training, consultancy and system implementations 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. For long-term software installation contracts (principally within the Secondary & Specialist Care segment), revenue is recognised according to the stage of completion.

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

Where Group recognition criteria have been met but no invoice to the customer has been raised at the reporting date, revenue is recognised and included as an accrued income, within trade and other receivables.

1.7 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.

Any impairment is recognised immediately in the statement of comprehensive income 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 developed for external sale

Expenditure on software development is capitalised as an intangible asset if it meets the recognition criteria set out in IAS 38 'Intangible Assets', requiring it to be probable that the expenditure will generate future economic benefits and can be measured reliably. To meet these criteria, it is necessary to be able to demonstrate, among other things, the technical feasibility of completing the intangible asset so that it will be available for use or sale.

The costs incurred in the development stage for substantially new or enhanced products are assessed against the IAS 38 criteria and considered for recognition as an asset when they meet those criteria. These costs are generally incurred in developing the detailed product design, software configuration and interfaces, in the coding of software, in its integration with hardware, and in its testing.

Development expenditure directed towards incremental improvements in existing products, remedial work and other maintenance activity does not qualify for recognition as an intangible asset.

Where a product is technically feasible, production and sales are intended, a market exists, and sufficient resources are available to complete the project, development costs (only direct employee costs) are capitalised and subsequently amortised on a straight-line basis over the estimated useful life, reflecting the pattern of the expected future economic benefits. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred.

1. Summary of significant accounting policies continued

1.7 Intangible assets continued

(b) Computer software developed for external sale continued

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The estimated useful life for development expenditure is between four and eight years, based on the anticipated conditions in the market from which economic benefits are expected to be derived for each unique software product.

Development expenditure is capitalised in accordance with the criteria of IAS 38, and for this reason is not regarded as a realised loss.

(c) Other intangible assets

Intangible assets acquired in a business combination are initially recognised at their fair value. Other intangible assets are initially recognised at cost. Intangible assets are subsequently stated at this value less accumulated amortisation and any accumulated impairment losses.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the asset, as shown below:

Computer software used internally	4–6 years
Computer software acquired on business combinations	4–8 years
Customer relationships	10–15 years

1.8 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 residual value on a straight-line basis over their estimated useful lives at the following annual rates:

Freehold property	2%
Leasehold property	Life of lease
Computer equipment	25%–33%
Fixtures, fittings and equipment	25%
Motor vehicles	20%

1.9 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 in the Group statement of comprehensive income.

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.

1.10 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.

Notes to the financial statements continued

for the year ended 31 December 2016

1. Summary of significant accounting policies continued

1.10 Taxation continued

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.

1.11 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.

1.12 Share-based payments

The Group operates equity-settled share schemes for certain employees. The cost of equity-settled share-based payments is measured at fair value at the date of grant, excluding the effect of non-market based vesting conditions. The cost is recognised in the Group statement of comprehensive income on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The estimate of the level of vesting is reviewed annually and the charge is adjusted accordingly in respect of non-market based vesting conditions. The fair values are measured using the Black Scholes and Monte Carlo models.

1.13 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.

1.14 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are taken directly to the translation reserve. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve is reclassified to the statement of comprehensive income as part of the gain or loss on disposal.

1. Summary of significant accounting policies continued

1.15 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.

1.16 Own shares held in trust

The shares in the Company held by The EMIS Group plc Employee Benefit Trust are treated as treasury shares, stated at weighted average cost and presented as a reduction of shareholders' equity (see note 25). Gains and losses on transactions in the Company's own shares are taken directly to equity.

1.17 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, and bank overdrafts. There are no bank deposits with maturity dates of more than one month.

(b) Financial liabilities

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, where this is different to the initial recognition value.

Bank borrowings

Bank 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 the fair value of the consideration received.

1.18 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.

Notes to the financial statements continued

for the year ended 31 December 2016

2. 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 estimates, assumptions and judgements 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 are as follows:

Carrying amount of goodwill, intangible assets acquired, and investments

The carrying amounts of goodwill, intangible assets acquired, and investments are reviewed for impairment at least annually and are assessed against the net present value of projected cash flows for each cash-generating unit (CGU). Cash flows are discounted using an adjusted weighted average cost of capital for each CGU. Judgements are made in calculating the value in use, and ongoing appropriateness, of the CGUs.

Revenue recognition

The key area of judgement in respect of recognising revenue is the timing of recognition, specifically in relation to deferral of revenues that are invoiced and paid in advance of services being provided.

Development costs

The key areas of judgement are in determining whether the expenditure meets the criteria for capitalisation and the useful life over which this expenditure is amortised. Expenditure is only capitalised if it meets the criteria set out in IAS 38 'Intangible Assets', details are set out in note 1.7(b). Useful lives are based on management estimates of the period over which assets are expected to 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.

3. Financial risk management

3.1 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.

Exposure to financial risks is monitored by the finance team 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 by payment being received in advance for a significant proportion of goods and services provided.

There is some concentration of risk, as the Group trades extensively with various parties within the National Health Service. However, the Group has longstanding relationships with its large number of end users and, in addition to the normal credit management processes, the nature of these relationships assists management in controlling its credit risk.

Credit risk also arises on cash and cash equivalents placed with the Group's banks. The Group monitors the financial standing of any institution with which it deposits cash.

Liquidity risk

Management controls and monitors 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 notes 22 and 23.

Interest rate risk

The Company has limited exposure to interest rate risk in relation to its bank debt of £2.0m and bank overdraft of £2.8m, with the latest cash flow projections for the Group indicating that it will be in a net cash position by 30 June 2017, when the Group's current bank debt facilities expire. Details of the interest rates and repayment terms are disclosed in note 22. The Group's cash generation is sufficient to enable it to pay down the bank debt rapidly in the event of any significant adverse movement in interest rates.

The Group's current assets include cash and cash equivalents at the year end amounting to £4.3m, on which interest received is subject to fluctuations in market rates.

3. Financial risk management continued

3.1 Financial risk factors continued

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 other than at the point of renegotiation of these frameworks or contracts. Where these negotiations are material, the Group, including the Board, is fully engaged with the process in order to secure the best possible outcome.

3.2 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 appropriate 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 and a low level of indebtedness. 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.

The Group's reserves include:

Own shares held in trust – an Employee Benefit Trust holds shares in the Company to facilitate share-based emolument payments and the Group's Share Incentive Plan.

Other reserve – comprises a translation reserve of foreign exchange differences from the translation of the financial statements of overseas operations and other reserves related to merger reliefs taken under UK law.

4. 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.

The Group has three operating segments, all involved with the supply and support of connected healthcare software and services:

(a) Primary & Community Care;

(b) Community Pharmacy; and

(c) Secondary & Specialist Care.

Each operating segment is assessed by the Board based on a measure of adjusted operating profit. This measurement basis excludes exceptional items, 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. Group operating expenses, finance income and costs, cash and cash equivalents and bank loans and overdrafts 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 2016

4. Operating segments continued

Segmental information

	2016				2015			
	Primary & Community Care £'000	Community Pharmacy £'000	Secondary & Specialist Care £'000	Total £'000	Primary & Community Care £'000	Community Pharmacy £'000	Secondary & Specialist Care £'000	Total £'000
Segmental result								
Revenue	**99,615**	**21,425**	**37,672**	**158,712**	93,860	20,013	42,025	155,898
Segmental operating profit as reported internally	**32,202**	**4,876**	**3,292**	**40,370**	29,603	4,248	4,182	38,033
Development costs capitalised	**1,882**	**1,927**	**1,875**	**5,684**	3,031	1,017	2,135	6,183
Amortisation of development costs	**(4,497)**	**—**	**(1,516)**	**(6,013)**	(5,396)	—	(901)	(6,297)
Amortisation of acquired intangible assets	**(1,054)**	**(576)**	**(5,009)**	**(6,639)**	(923)	(577)	(5,009)	(6,509)
Cost reduction programme	**(1,162)**	**(140)**	**(2,328)**	**(3,630)**	—	—	—	—
Impairment of goodwill	**—**	**—**	**(4,616)**	**(4,616)**	—	—	(16,183)	(16,183)
Segmental operating profit/(loss)	**27,371**	**6,087**	**(8,302)**	**25,156**	26,315	4,688	(15,776)	15,227
Group operating expenses				**(1,617)**				(1,480)
Impairment of investment				**—**				(2,317)
Operating profit				**23,539**				11,430
Net finance costs				**(237)**				(449)
Share of result of associate				**—**				(388)
Share of result of joint venture				**499**				339
Gain on sale of associate				**1,532**				—
Profit before taxation				**25,333**				10,932
Segmental assets and liabilities								
Segmental assets as reported internally	**41,948**	**5,204**	**16,423**	**63,575**	36,036	4,469	16,254	56,759
Goodwill and other intangible assets	**42,333**	**12,656**	**55,964**	**110,953**	49,307	11,223	60,853	121,383
	84,281	**17,860**	**72,387**	**174,528**	85,343	15,692	77,107	178,142
Group assets				**397**				372
Investment in joint venture and associate				**152**				131
Group cash and cash equivalents				**4,303**				4,701
Total assets				**179,380**				183,346
Segmental liabilities as reported internally	**(32,746)**	**(8,877)**	**(17,927)**	**(59,550)**	(30,739)	(7,476)	(20,011)	(58,226)
Group liabilities				**(954)**				(4,264)
Group bank loans and overdraft				**(4,734)**				(13,810)
Total liabilities				**(65,238)**				(76,300)
Other segmental information								
Purchase of property, plant and equipment	**5,296**	**443**	**1,088**	**6,827**	3,409	180	2,556	6,145
Depreciation of property, plant and equipment	**5,032**	**187**	**1,240**	**6,459**	6,749	137	954	7,840
Purchase of computer software used internally	**902**	**85**	**—**	**987**	1,730	—	—	1,730
Amortisation of computer software used internally	**918**	**1**	**—**	**919**	687	17	—	704

4. Operating segments continued

Segmental information continued

Revenue excludes intra-Group transactions on normal commercial terms from the Primary & Community Care segment to the Community Pharmacy segment totalling £4,254,000 (2015: £3,750,000), from the Primary & Community Care segment to the Secondary & Specialist Care segment totalling £411,000 (2015: £883,000), and from the Secondary & Specialist Care segment to the Primary & Community Care segment totalling £nil (2015: £33,000).

Revenue of £112,396,000 (2015: £112,786,000) is derived from the NHS and related bodies.

Revenue of £7,270,000 (2015: £6,942,000) is derived from customers outside the United Kingdom. Non-current assets held outside the UK total £663,000 (2015: £235,000).

5. Revenue

Revenue is analysed as follows:

	2016 £'000	2015 £'000
Licences	**54,762**	50,300
Maintenance and software support	**38,654**	37,887
Other support services	**29,340**	30,611
Training, consultancy and implementation	**14,572**	16,128
Hosting	**13,120**	13,075
Hardware	**8,264**	7,897
	158,712	155,898

6. Operating profit

	2016 £'000	2015 £'000
The following have been included in arriving at operating profit:		
Research and development expenditure	**17,326**	19,561
Development expenditure capitalised:		
– Software for external sale	**(5,684)**	(6,183)
– Software used internally	**(305)**	(472)
Depreciation of property, plant and equipment:		
– Depreciation of owned assets	**6,459**	7,840
Amortisation of intangible assets:		
– Computer software used internally	**919**	704
– Computer software developed for external sale	**6,013**	6,297
– Arising on business combinations	**6,639**	6,509
Cost reduction programme	**3,630**	—
Impairment of goodwill	**4,616**	16,183
Impairment of investment	**—**	2,317
Operating lease rentals:		
– Land and buildings	**2,276**	1,241
– Plant, machinery and motor vehicles	**882**	783

The total research and development cost shown above of £17,326,000 (2015: £19,561,000) consists of the direct salary and National Insurance costs of relevant staff. Software development costs amounting to £5,684,000 (2015: £6,183,000) have been capitalised in accordance with the criteria set out in IAS 38.

Notes to the financial statements continued
for the year ended 31 December 2016

6. Operating profit continued
Total fees payable by the Group during the year to KPMG LLP in respect of the audit and other services provided were as follows:

	2016 £'000	2015 £'000
Audit of these financial statements	**26**	25
Amounts payable to the Company's auditor and associated companies in respect of:		
– Audit of the financial statements of subsidiaries of the Company	**125**	115
– Tax compliance services	**—**	46
– Other tax advisory services	**58**	34
– Forensic advisory	**—**	75
– All other services	**30**	21
	239	316

7. Finance income

	2016 £'000	2015 £'000
Bank interest	**4**	28
Foreign currency gain	**184**	—
	188	28

8. Finance costs

	2016 £'000	2015 £'000
Bank loan interest	**328**	380
Amortisation of bank loan issue costs	**97**	97
	425	477

9. Employees
The average monthly number of people (including Directors) employed by the Group during the year was as follows:

	2016 Number	2015 Number
Management and administration	**184**	180
Software support and development	**956**	913
Sales, maintenance and training	**470**	493
Others	**265**	277
	1,875	1,863

9. Employees continued

Staff costs were:

	2016 £'000	2015 £'000
Wages and salaries	**67,543**	63,977
Social security costs	**6,588**	6,620
Pension costs – defined contribution plans	**2,523**	2,402
Share incentive plan (note 26)	**59**	437
Share option expense (note 26)	**473**	684
	77,186	74,120
Dealt with as follows:		
– Charged in Group statement of comprehensive income	**71,197**	67,465
– Capitalised in the development of software for external sale	**5,684**	6,183
– Capitalised in respect of computer software used internally	**305**	472
	77,186	74,120

10. Income tax expense

	2016 £'000	2015 £'000
Income tax:		
– Current year tax charge	**7,307**	7,943
– Adjustment in respect of prior years	**(422)**	—
Total current tax	**6,885**	7,943
Deferred tax:		
– Current year	**(1,677)**	(2,385)
Total deferred tax	**(1,677)**	(2,385)
Total tax charge in Group statement of comprehensive income	**5,208**	5,558
Factors affecting the tax charge for the year		
Profit before taxation	**25,333**	10,932
Taxation at the average UK corporation tax rate of 20% (2015: 20.25%)	**5,067**	2,214
Tax effects of:		
– Expenses/income not allowable/taxable in determining taxable profit	**707**	3,726
– Adjustment in respect of prior years	**(422)**	—
– Joint venture reported net of tax	**(100)**	—
– Deferred tax rate change	**(44)**	(382)
Tax charge for the year	**5,208**	5,558

The main rate of UK corporation tax will reduce to 19% from 1 April 2017, and to 17% from 1 April 2020. The impact of the further reduction from 1 April 2020 from the previously enacted rate of 18% on the deferred tax balances of the Group has been included in the current year tax charge.

Notes to the financial statements continued

for the year ended 31 December 2016

11. Earnings per share (EPS)

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

Earnings	2016 £'000	2015 £'000
Basic earnings attributable to equity holders	**19,101**	4,543
Cost reduction programme	**3,630**	—
Impairment of goodwill	**4,616**	16,183
Impairment of investment	**—**	2,317
Gain on sale of associate	**(1,532)**	—
Development costs capitalised	**(5,684)**	(6,183)
Amortisation of development costs and acquired intangible assets	**12,652**	12,806
Tax and non-controlling interest effect of above items	**(1,776)**	(1,266)
Adjusted earnings attributable to equity holders	**31,007**	28,400

Weighted average number of ordinary shares	2016 Number '000	2015 Number '000
Total shares in issue	**63,311**	63,311
Shares held by Employee Benefit Trust	**(502)**	(576)
For basic EPS calculations	**62,809**	62,735
Effect of potentially dilutive share options	**215**	230
For diluted EPS calculations	**63,024**	62,965

EPS	2016 Pence	2015 Pence
Basic	**30.4**	7.2
Adjusted	**49.4**	45.3
Basic diluted	**30.3**	7.2
Adjusted diluted	**49.2**	45.1

12. Dividends

	2016 £'000	2015 £'000
Final dividend for the year to 31 December 2014 of 9.2p	**—**	5,771
Interim dividend for the year to 31 December 2015 of 10.6p	**—**	6,651
Final dividend for the year to 31 December 2015 of 10.6p	**6,656**	—
Interim dividend for the year to 31 December 2016 of 11.7p	**7,350**	—
	14,006	12,422

A final dividend for the year to 31 December 2016 of 11.7p amounting to approximately £7,354,000 will be proposed at the Annual General Meeting on 28 April 2017. If approved, this dividend will be paid on 3 May 2017 to shareholders on the register on 31 March 2017. The dividend is not accounted for as a liability in these financial statements and will be accounted for as an appropriation of distributable reserves in the year to 31 December 2017.

13. Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) as follows:

Group	Primary & Community Care £'000	Community Pharmacy £'000	Secondary Care £'000	Specialist Care £'000	Total Group £'000
Cost					
At 1 January 2015	15,853	6,756	37,390	8,578	68,577
Acquisition of business	1,967	—	—	—	1,967
Reallocation of goodwill	3,473	—	(3,473)	—	—
Measurement period adjustment	—	—	—	27	27
At 31 December 2015	21,293	6,756	33,917	8,605	70,571
Acquisition of business (note 31)	564	—	—	—	564
At 31 December 2016	**21,857**	**6,756**	**33,917**	**8,605**	**71,135**
Accumulated impairment losses					
At 1 January 2015	—	—	—	—	—
Impairment of goodwill	—	—	16,183	—	16,183
At 31 December 2015	—	—	16,183	—	16,183
Impairment of goodwill	—	—	—	4,616	4,616
At 31 December 2016	**—**	**—**	**16,183**	**4,616**	**20,799**
Net book value					
At 31 December 2016	**21,857**	**6,756**	**17,734**	**3,989**	**50,336**
At 31 December 2015	21,293	6,756	17,734	8,605	54,388
At 1 January 2015	15,853	6,756	37,390	8,578	68,577

Impairment tests for goodwill

Each allocation is tested annually for impairment and, to confirm whether an impairment of the goodwill is necessary, management compares the carrying value to the value in use.

The value in use for each allocation of the existing goodwill has been calculated using internal Group budgets for the year ending 31 December 2017 to forecast pre-tax cash flows from each CGU (with the key budget assumptions being in relation to revenue growth). These cash flows have then been extrapolated for a further four years assuming average annual growth rates of 3.5% (2015: 3.5%) until 31 December 2021 and then 1% into perpetuity (2015: 1%) for all CGUs except Specialist Care, which is based on management forecasts to 2019 followed by 3.5% growth in 2020 and 2021, and 1% growth into perpetuity. The pre-tax cash flows have been discounted back to 31 December 2016 using a discount rate of 9.1% in relation to Primary & Community Care (2015: 9.1%), and 10.1% for all other CGUs (2015: 10.1%).

As a result of this exercise a £4,616,000 impairment of goodwill within the Specialist Care CGU has been recognised, reflecting the fact that the Medical Imaging business has not yet delivered the financial returns expected when it joined the Group in 2014. The recoverable amount of the Specialist Care CGU assessed under the value in use method is £9,909,000. The exercise has confirmed that there has been no impairment in any other CGU.

Sensitivity analysis has been performed on the key assumptions which indicated that, with the exception of the Specialist Care CGU, no reasonably possible change to key assumptions would cause an impairment. An impairment would not be recognised outside of the Specialist Care CGU if annual growth rates, and growth into perpetuity, were reduced to zero, or if discount rates were increased to 13.5%.

A 1% increase in the Specialist Care CGU discount rate would reduce the value in use by £1,209,000, and a 1% reduction in both the annual growth rate and the perpetuity growth rate would reduce the value in use by £1,183,000.

Management has determined the discount rates for each CGU by considering the specific risks relating to the relevant segment. Growth rates beyond the budget period are determined based on a prudent assessment of long-term growth rates.

Notes to the financial statements continued

for the year ended 31 December 2016

14. Other intangible assets

Group	Computer software used internally £'000	Computer software developed for external sale £'000	Computer software acquired on business combinations £'000	Customer relationships £'000	Total £'000
Cost					
At 1 January 2015	2,810	28,660	35,217	35,113	101,800
Additions	1,730	6,183	—	—	7,913
Acquisition of business	—	—	844	928	1,772
At 31 December 2015	4,540	34,843	36,061	36,041	111,485
Additions	987	5,684	—	—	6,671
Acquisition of business (note 31)	—	—	259	263	522
At 31 December 2016	**5,527**	**40,527**	**36,320**	**36,304**	**118,678**
Accumulated amortisation and impairment					
At 1 January 2015	665	7,300	13,002	10,013	30,980
Charged in year	704	6,297	3,469	3,040	13,510
At 31 December 2015	1,369	13,597	16,471	13,053	44,490
Charged in year	919	6,013	3,553	3,086	13,571
At 31 December 2016	**2,288**	**19,610**	**20,024**	**16,139**	**58,061**
Net book value					
At 31 December 2016	**3,239**	**20,917**	**16,296**	**20,165**	**60,617**
At 31 December 2015	3,171	21,246	19,590	22,988	66,995
At 1 January 2015	2,145	21,360	22,215	25,100	70,820

The accounting policy for intangible assets is set out in note 1.7. The remaining average amortisation period for software developed for external sale is three years. At 31 December 2016 software acquired on business combinations had a remaining amortisation period of five years for both Ascribe and Digital Healthcare, three years for Indigo 4 Systems (part of the Secondary Care CGU), and four years for PinBellCom Group Limited (part of the Primary & Community Care CGU). The amortisation period for software acquired during the year with Intrelate Limited (part of the Primary & Community Care CGU) is five years. Customer relationships have a remaining amortisation period of seven years for Primary & Community Care, four years for Community Pharmacy, seven years for both Ascribe and Digital Healthcare, eight years for both Indigo 4 Systems and Medical Imaging, and nine years for PinBellCom Group Limited. The amortisation period for customer relationships acquired during the year with Intrelate Limited is ten years.

Company intangible assets comprise computer software developed for external sale with a cost of £3,729,000 (2015: £1,801,000; 2014: £784,000) and accumulated amortisation of £nil (2015: £nil; 2014: £nil). Amortisation on this is expected to commence in 2017.

15. Property, plant and equipment

Group	Land and buildings £'000	Computer equipment £'000	Fixtures. fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2015	9,698	31,037	3,552	5,294	49,581
Additions	1,715	2,916	1,376	138	6,145
Acquisition of business	—	11	—	—	11
Disposals	(186)	(111)	(27)	(1,893)	(2,217)
Exchange differences	—	3	—	—	3
At 31 December 2015	11,227	33,856	4,901	3,539	53,523
Additions	441	4,999	1,338	49	6,827
Acquisition of business (note 31)	—	2	—	—	2
Disposals	—	—	(1,163)	(1,620)	(2,783)
Exchange differences	56	12	31	17	116
At 31 December 2016	**11,724**	**38,869**	**5,107**	**1,985**	**57,685**
Accumulated depreciation and impairment					
At 1 January 2015	1,074	20,357	1,532	2,305	25,268
Charged in year	266	5,998	517	1,059	7,840
On disposals	(116)	(16)	(8)	(1,477)	(1,617)
At 31 December 2015	1,224	26,339	2,041	1,887	31,491
Charged in year	328	4,660	825	646	6,459
On disposals	—	—	(1,161)	(1,324)	(2,485)
Exchange differences	—	6	18	9	33
At 31 December 2016	**1,552**	**31,005**	**1,723**	**1,218**	**35,498**
Net book value					
At 31 December 2016	**10,172**	**7,864**	**3,384**	**767**	**22,187**
At 31 December 2015	10,003	7,517	2,860	1,652	22,032
At 1 January 2015	8,624	10,680	2,020	2,989	24,313

Included within property, plant and equipment are contract assets allocated to the data centre hosting services contract (see note 1.6 for further details) with an original cost of £21,430,000 (2015: £18,795,000) and accumulated depreciation of £18,781,000 (2015: £16,826,000). Depreciation of £1,955,000 (2015: £3,175,000) has been included in other operating expenses in the year. The net book value of these assets amounts to £2,649,000 (2015: £1,969,000).

16. Investments in subsidiaries

Company	£'000
At 1 January 2015	82,370
Acquisition of business	3,464
Investment in subsidiary undertaking	1
Capital contribution	1,748
Impairment	(17,203)
At 31 December 2015	70,380
Acquisition of business (note 31)	1,045
Impairment	(4,069)
At 31 December 2016	**67,356**

The Company's investment in Medical Imaging UK Limited was impaired by £4,069,000, writing down the cost of investment to £7,931,000, following a review of future cash flows against the carrying value of the investment.

Notes to the financial statements continued

for the year ended 31 December 2016

16. Investments in subsidiaries continued

The undertakings whose results and financial position are consolidated within the Group financial statements at 31 December 2016 are as follows:

	Country of incorporation	% of issued ordinary shares held
ASC Computer Software (NZ) Limited	New Zealand	100
ASC Computer Software PTY Limited	Australia	100
Ascribe Group Limited	England	100[2]
Ascribe Holdings Limited	England	100
Ascribe Limited	England	100
Ascribe Limited (Kenya)	Kenya	100
CBD-E Limited[1]	England	100
Digital Healthcare Limited	England	100[2]
Egton Limited[1]	England	100[2]
Egton Medical Information Systems Limited	England	100[2]
EMIS Care Limited[1]	England	100[2]
EMIS Health Community Pharmacy Limited[1]	England	100[2]
EMIS Health India Private Limited	India	100[2]
EMIS Health Limited[1]	England	100[2]
EMIS Health Primary Care Limited[1]	England	100[2]
EMIS Health Secondary Care Limited[1]	England	100[2]
EMIS Health Specialist Care Limited[1]	England	100[2]
Footman Walker Associates Limited[1]	England	100
Healthcare Gateway Limited	England	50
Indigo 4 Systems Limited	England	100
Intrelate Limited	Scotland	100[2]
Medical Imaging UK Limited	England	100[2]
MIDRSS Limited	Republic of Ireland	100[2]
Patient Platform Limited	England	100[2]
PinBellCom Group Limited	England	100[2]
PinBellCom Limited	England	100
Protechnic Exeter Limited[1]	England	100
Rx Systems Limited	England	78.9[2]
Scroll Bidco Limited	England	100

1 Dormant.

2 Held directly by EMIS Group plc.

The above subsidiary undertakings which are not dormant are engaged in providing software and support services to the healthcare market, with the exception of Ascribe Group Limited, Scroll Bidco Limited, Ascribe Holdings Limited and PinBellCom Group Limited which are all holding companies.

All undertakings incorporated in England, with the exception of Healthcare Gateway Limited, have a registered office of Rawdon House, Green Lane, Yeadon, Leeds, LS19 7BY. The registered office of Healthcare Gateway Limited is C/O IBB Solicitors, Capital Court, 30 Windsor Street, Uxbridge, UB8 1AB.

Other registered offices are as follows: ASC Computer Software (NZ) Limited, Suite 6035, 17b Farnham Street, Parnell, Auckland, New Zealand; ASC Computer Software PTY Limited, Unit 1B, 5-7 Compark Circuit, Mulgrave, VIC 3170, Australia; Ascribe Limited (Kenya), PO Box 40296 - 00100, Nairobi, Kenya; Emis Health India Private Limited, Unit No. A1, Level 3, Shriram The Gateway SEZ, No. 16, G.S.T. Road, Perungalathur, Chennai-600 063, India; Intrelate Limited, Bush House, Edinburgh Technopole, Milton Bridge, Penicuik, Scotland, EH26 0BB; and MIDRSS Limited, The Care Centre Unit 3, Enterprise House, 36 Mary Street, Cork City, Co. Cork, Ireland.

17. Investment in joint venture and associate

Associate

Group	2016 £'000	2015 £'000
At 1 January	—	2,705
Share of result for year	—	(388)
Impairment	—	(2,317)
At 31 December	—	—

The results above relate to Pharmacy 2U Limited (P2U), an unlisted company incorporated in the UK. On 2 July 2016 the Group disposed fully of its minority interest in P2U, generating net proceeds and a gain on disposal of £1,532,000, following the full impairment of the investment in the prior year.

Joint venture

Healthcare Gateway Limited (HGL) is a joint venture formed 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 the ordinary share capital of HGL, acquired on formation for £1. The venture was initially funded by loans from each joint venture party and at 31 December 2016 the Group was owed £nil (2015: £155,000).

Aggregate amounts relating to HGL are as follows:

	2016 £'000	2015 £'000
Revenues	2,479	1,648
Profit before taxation	1,248	678
Profit after taxation	998	532
Current assets	1,954	1,512
Current liabilities	(1,650)	(1,406)
Net assets	304	106
Group's interest in net assets of investee at beginning of year	131	(208)
Share of total comprehensive income	499	339
Dividends received	(400)	—
Adjustment in relation to prior year tax	(78)	—
Group's interest in net assets of investee at end of year	152	131

18. Inventories

Group	2016 £'000	2015 £'000
Finished goods	1,815	1,206

19. Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade and other receivables	15,611	15,385	—	—
Prepayments and accrued income	24,359	18,508	394	369
Loan to Employee Benefit Trust	—	—	2,870	3,137
Income tax	—	—	—	—
	39,970	33,893	3,264	3,506

The loan to the Employee Benefit Trust is non-interest bearing and is repayable on demand.

Notes to the financial statements continued

for the year ended 31 December 2016

20. Credit quality of financial assets

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

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade and other receivables	15,611	15,385	—	—
Cash at bank	4,303	4,701	—	—
	19,914	20,086	—	—

No collateral security is held.

Trade and other receivables

Reporting date balances fall within the following categories:

	Group	
	2016 £'000	2015 £'000
UK governmental health bodies	5,900	7,124
Community pharmacies and associated wholesalers	3,519	3,933
Other third party receivables	6,192	4,328
	15,611	15,385

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:

	2016 £'000	2015 £'000
December	9,343	10,482
November	2,543	2,263
October and earlier	3,725	2,640
	15,611	15,385

The Group carries a provision for impairment of trade receivables of £318,000 (2015: £348,000).

Cash at bank

The Group's cash is held with a number of different banks. The Moody's long-term credit ratings of those banks and the respective balances held are as follows:

	Group	
	2016 £'000	2015 £'000
Aa2	808	475
Aa3	204	232
A1	777	44
A2	—	1,024
A3	1,707	658
Baa1	—	411
Baa2	132	—
Baa3	81	71
Caa2	594	1,786
	4,303	4,701

21. Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade payables	**4,751**	5,081	**230**	562
Accrued expenses	**9,787**	7,084	**696**	487
Other tax and social security	**6,551**	5,612	**—**	—
	21,089	17,777	**926**	1,049

22. Borrowings

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Non-current				
Unsecured bank loans	**—**	1,951	**—**	1,951
	—	1,951	**—**	1,951
Current				
Bank overdraft	**2,782**	6,457	**11,168**	7,756
Unsecured bank loans	**1,951**	5,402	**1,951**	5,402
	4,733	11,859	**13,119**	13,158

Bank loans comprise £2,000,000 of term loan and £49,000 of unamortised arrangement fees. All bank loans bear an interest rate of 1.50% above LIBOR.

The term loan is repayable by equal quarterly instalments of £1,000,000, with a final maturity date of 30 June 2017. The revolving credit facility and overdraft facility are committed until 30 June 2017. At 31 December 2016, £6,000,000 of the revolving credit facility was undrawn, and there was £7,218,000 of unused overdraft facility.

The financial covenants in place for these facilities are: EBITA interest cover; net debt to adjusted EBITDA senior leverage; and cash flow to senior debt cash flow cover. All covenants were comfortably met during the year and are projected to be so in the remaining period of the facility.

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

23. Liquidity risk

The following are the contractual maturities of the Group's borrowings, including estimated interest payments:

	Carrying amount £'000	Contractual cash flow £'000	Less than 1 year £'000	1–2 years £'000	2–3 years £'000
At 31 December 2016					
Trade and other payables due within one year	**(21,089)**	**(21,089)**	**(21,089)**	**—**	**—**
External borrowings	**(1,951)**	**(2,028)**	**(2,028)**	**—**	**—**
Bank overdraft	**(2,782)**	**(2,782)**	**(2,782)**	**—**	**—**
	(25,822)	**(25,899)**	**(25,899)**	**—**	**—**
At 31 December 2015					
Trade and other payables due within one year	(17,777)	(17,777)	(17,777)	—	—
External borrowings	(7,353)	(7,610)	(5,594)	(2,016)	—
Contingent acquisition consideration	(3,000)	(3,000)	(3,000)	—	—
Bank overdraft	(6,457)	(6,457)	(6,457)	—	—
	(34,587)	(34,844)	(32,828)	(2,016)	—

Contingent consideration is measured at fair value, with fair values measured using level three inputs (being those that are not based on observable market data).

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for the year ended 31 December 2016

24. Deferred tax

Group	Property, plant and equipment £'000	Intangible assets £'000	Other temporary differences £'000	Total £'000
At 1 January 2015	522	(13,583)	352	(12,709)
Credited to statement of comprehensive income	504	1,867	14	2,385
Credited to equity	—	—	134	134
Acquisition of business	—	(338)	—	(338)
Exchange differences	—	—	(2)	(2)
At 31 December 2015	1,026	(12,054)	498	(10,530)
(Charged)/credited to statement of comprehensive income	(107)	1,600	184	1,677
Charged to equity	—	—	(102)	(102)
Acquisition of business (note 31)	(26)	(94)	—	(120)
Exchange differences	—	—	(5)	(5)
At 31 December 2016	**893**	**(10,548)**	**575**	**(9,080)**

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:

	2016 £'000	2015 £'000
Deferred tax liabilities	**(10,966)**	(12,509)
Deferred tax assets	**1,886**	1,979
	(9,080)	(10,530)

25. Share capital and share premium

Company and Group	Ordinary shares of 1p each Number	Ordinary shares of 1p each £'000	Share premium £'000
At 1 January 2015, 31 December 2015 and 31 December 2016	**63,311,396**	**633**	**51,045**

All issued shares are fully paid. At 31 December 2016 the EMIS Group plc Employee Benefit Trust held 464,867 shares in the Company (2015: 540,034 shares).

During the year the Employee Benefit Trust purchased 41,889 shares, representing 0.1% of the issued share capital of the Company, in relation to the exercise of employee share options.

During the year the Employee Benefit Trust disposed of 117,056 shares, representing 0.2% of the issued share capital of the Company, for total consideration of £1,016,000.

The maximum number of shares held by the Employee Benefit Trust during the year was 540,034, representing 0.9% of the issued share capital of the Company.

26. Share-based payments

At 31 December 2016 outstanding awards to subscribe for ordinary shares of 1p each in the Company, granted in accordance with the rules of the EMIS Group share option schemes and the EMIS Group LTIP, were as follows:

Date of grant	At 1 January 2015	Granted	Lapsed	Exercised	At 1 January 2016	Granted	Lapsed	Exercised	**At 31 December 2016**
2011 Share Option Plan									
11 October 2011	22,704	—	—	(16,082)	6,622	—	—	(5,203)	**1,419**
1 October 2012	33,826	—	(2,460)	(21,406)	9,960	—	(120)	(3,075)	**6,765**
2 May 2013	4,107	—	—	—	4,107	—	—	(2,738)	**1,369**
18 October 2013	89,154	—	(13,335)	(444)	75,375	—	(9,843)	(35,814)	**29,718**
15 October 2014	53,562	—	(3,478)	(56)	50,028	—	(9,687)	—	**40,341**
28 April 2015	—	47,437	(1,423)	—	46,014	—	(3,847)	—	**42,167**
27 April 2016	—	—	—	—	—	40,172	(1,030)	—	**39,142**
	203,353	47,437	(20,696)	(37,988)	192,106	40,172	(24,527)	(46,830)	**160,921**
Weighted average exercise price	690p	901p	705p	690p	741p	970p	740p	656p	**823p**
Unapproved Option Scheme									
1 October 2012	52,500	—	—	(45,264)	7,236	—	(4,003)	—	**3,233**
18 October 2013	121,000	—	—	—	121,000	—	(121,000)	—	**—**
27 April 2016	—	—	—	—	—	2,317	—	—	**2,317**
	173,500	—	—	(45,264)	128,236	2,317	(125,003)	—	**5,550**
Weighted average exercise price	703p	—	—	812p	665p	970p	661p	—	**878p**
EMIS Group LTIP									
2 May 2013	50,000	—	—	(27,714)	22,286	—	—	(6,853)	**15,433**
16 January 2014	49,019	—	—	—	49,019	—	—	—	**49,019**
1 May 2014	292,400	—	(22,714)	—	269,686	—	(56,562)	—	**213,124**
28 April 2015	—	266,554	(16,380)	—	250,174	—	(40,812)	—	**209,362**
27 April 2016	—	—	—	—	—	235,977	(14,247)	—	**221,730**
	391,419	266,554	(39,094)	(27,714)	591,165	235,977	(111,621)	(6,853)	**708,668**
Weighted average exercise price	91p	0p	0p	710p	27p	0p	0p	710p	**16p**

The number of vested options which had not been exercised at 31 December 2016 was 42,504 (2015: 23,818). The weighted average share price at the date of exercise for share options exercised in 2016 was £9.01 (2015: £9.18).

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 under the 2011 Share Option Plan, the Unapproved Option Scheme and the 2013 LTIP scheme, and at nil cost under the 2014, 2015 and 2016 LTIP schemes. Performance conditions apply to the 2014, 2015 and 2016 awards under the 2011 Share Option Plan, and to all awards under the Unapproved Option Scheme and the EMIS Group LTIP.

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.

The key assumptions used in the valuations are shown on page 98. The fair values of options with performance conditions have been determined using the Monte Carlo Model. The fair values of options without performance conditions have been determined using the Black Scholes Model.

Notes to the financial statements continued

for the year ended 31 December 2016

26. Share-based payments continued

2011 Share Option Plan

Grant date	11 October 2011	1 October 2012	2 May 2013	18 October 2013	15 October 2014	28 April 2015	27 April 2016
Exercise period	October 2014–October 2016	October 2015–October 2017	May 2016–May 2018	October 2016–October 2018	October 2017–October 2019	April 2018–April 2020	April 2019–April 2021
Share price at grant date	528p	812p	730p	656p	737p	901p	970p
Exercise price	528p	812p	730p	656p	737p	901p	970p
Expected volatility	36%	30%	35%	35%	35%	26%	30%
Expected life (years)	3	3	3	3	3	3	3
Risk-free rate	2.75%	1.00%	1.40%	1.40%	2.37%	2.37%	2.37%
Expected dividend yield	2.35%	1.64%	2.20%	2.20%	2.33%	2.03%	2.19%
Fair value per option	109p	153p	157p	141p	164p	152p	190p

Unapproved Option Scheme

Grant date	1 October 2012	18 October 2013	27 April 2016
Exercise period	June 2015–July 2016	July 2016–October 2018	April 2019–April 2021
Share price at grant date	812p	656p	970p
Exercise price	812p	656p	970p
Expected volatility	30%	35%	30%
Expected life (years)	3	3	3
Risk-free rate	1.00%	1.40%	2.37%
Expected dividend yield	1.64%	2.20%	2.19%
Fair value per option	75p	89p	190p

EMIS Group LTIP

Grant date	2 May 2013	16 January 2014	1 May 2014	28 April 2015	27 April 2016
Exercise period	July 2015–July 2017	January 2017–January 2024	May 2017–May 2024	April 2018–April 2025	April 2019–April 2026
Share price at grant date	710p	630p	635p	908p	970p
Exercise price	710p	0p	0p	0p	0p
Expected volatility	30%	35%	35%	26%	30%
Expected life (years)	3	3	3	3	3
Risk-free rate	1.00%	2.37%	2.37%	2.37%	2.37%
Expected dividend yield	1.90%	2.52%	2.52%	2.03%	2.19%
Fair value per option	177p	584p	589p	854p	908p

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 with at least one year's service. Those joining contribute a maximum of the lower of £1,800 a year or 10% of salary, which is used to acquire shares in the Company at market price from the EMIS Group plc Employee Benefit Trust, which holds shares in the Company to satisfy Share Incentive Plan and other employee share scheme requirements.

For every three shares acquired by an employee the Company adds one free "matching" share. The matching shares, together with any free shares allocated to members under the scheme during the year, had a value of £59,000 (2015: £437,000).

27. Operating lease commitments

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

Group	2016 £'000	2015 £'000
Land and buildings:		
– Due within one year	1,178	1,584
– Due between one and five years	3,902	4,296
– Due after five years	3,469	3,618
Plant, machinery and motor vehicles:		
– Due within one year	1,346	767
– Due between one and five years	1,351	1,488
– Due after five years	—	—
	11,246	11,753

28. Capital commitments

At 31 December 2016 the Group had capital commitments in respect of computer equipment amounting to £243,000 (2015: £1,732,000).

29. Cash generated from operations

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Profit before taxation	25,333	10,932	13,937	23,676
Finance income	(188)	(28)	—	—
Finance costs	425	477	385	541
Share of result of associate	—	388	—	—
Share of result of joint venture	(499)	(339)	—	—
Gain on sale of associate	(1,532)	—	—	—
Dividends received	—	—	(20,000)	(42,890)
Operating profit/(loss)	23,539	11,430	(5,678)	(18,673)
Adjustment for non-cash items				
Amortisation of intangible assets	13,571	13,510	—	—
Depreciation of property, plant and equipment	6,459	7,840	—	—
Impairment of goodwill	4,616	16,183	—	—
Impairment of investment	—	2,317	4,069	17,203
Profit on disposal of property, plant and equipment	(229)	(44)	—	—
Share-based payments	473	684	—	—
Operating cash flow before changes in working capital	48,429	51,920	(1,609)	(1,470)
Changes in working capital				
(Increase)/decrease in inventory	(609)	344	—	—
Increase in trade and other receivables	(6,369)	(3,945)	(25)	(218)
Increase/(decrease) in trade and other payables	1,915	(3,246)	(123)	692
Increase/(decrease) in deferred income	291	(2,362)	—	—
Cash generated from operations	43,657	42,711	(1,757)	(996)

Notes to the financial statements continued

for the year ended 31 December 2016

30. Change in net debt

Group	2015 £'000	Cash flow £'000	Finance costs £'000	2016 £'000
Cash and cash equivalents	4,701	(398)	—	**4,303**
Bank overdraft	(6,457)	3,675	—	**(2,782)**
Bank loans due within one year	(5,402)	3,500	(49)	**(1,951)**
Bank loans due after one year	(1,951)	2,000	(49)	**—**
Net debt	(9,109)	8,777	(98)	**(430)**

31. Business combinations

On 22 December 2016 the Group acquired 100% of the share capital of Intrelate Limited, a provider of mobile social care software. The acquisition is in line with the Group's strategy of providing health and social care IT for patients and those involved in their care.

The provisional fair values of the net assets acquired, consideration paid and goodwill arising on the transaction are shown in the table below:

Group	£'000
Goodwill	564
Intangible assets acquired:	
– Computer software	259
– Customer relationships	263
Property, plant and equipment	2
Trade and other receivables	101
Cash and cash equivalents	196
Trade and other payables	(93)
Deferred income	(127)
Deferred tax	(120)
Total net assets	**1,045**
Consideration:	
Cash consideration	1,045
Total consideration	**1,045**
Cash and cash equivalent balances acquired	(196)
Net cash cost of acquisition paid in year	**849**

Goodwill relates principally to the experienced staff within the business.

Provisional fair values of assets and liabilities represent the best estimate of the fair values at the date of acquisition. As permitted by IFRS 3 (Revised) 'Business Combinations', these provisional amounts can be amended for a period of up to twelve months following acquisition if subsequent information becomes available which changes the estimates of fair values at the date of acquisition.

The post-acquisition contribution of the acquired business to Group revenue and adjusted operating profit is not material to the year under review as the business was only acquired on 22 December 2016, immediately prior to the year end. Had the acquisition occurred on 1 January 2016, the Group's revenue and adjusted operating profit for the year would have been £159,719,000 and £38,764,000 respectively.

In relation to the acquisition, costs of £30,000 have been expensed in the statement of comprehensive income.

32. Pension commitments

Pension contributions of £2,523,000 (2015: £2,402,000) represent contributions paid on behalf of employees by the Group to various defined contribution schemes.

33. Related party transactions

Key management compensation

Key management includes Executive and Non-executive Directors and members of the Group Executive Board. The compensation paid or payable to key management for employee services is shown below:

	2016 £'000	2015 £'000
Salaries and other short-term employee benefits	**3,118**	3,095
Post retirement benefits	**212**	243
	3,330	3,338

Directors' emoluments	2016 £'000	2015 £'000
Aggregate emoluments	**823**	758
Pension costs – defined contribution plans	**86**	81
	909	839

Retirement benefits are accruing to two (2015: two) Directors under defined contribution personal pension schemes.

Highest paid Director	2016 £'000	2015 £'000
Aggregate emoluments	**338**	340
Pension costs – defined contribution plans	**48**	47
	386	387

Other related party transactions

Transactions between the Group and:	2016 £'000	2015 £'000
Associate – Pharmacy 2U Limited		
Sales of goods and services in year	**26**	67
Joint venture – Healthcare Gateway Limited		
Sales of goods and services in year	**854**	598
Amounts owed by related party at year end	**—**	155
Key management personnel		
Sale of motor vehicles at market value	**16**	13

Transactions between Company and subsidiaries

The Company enters into transactions with its subsidiary undertakings in respect of internal funding and the provision of certain services which are procured by the Company. Such services are recharged based on the utilisation by the subsidiary undertaking. The amounts outstanding from subsidiary undertakings to the Company at 31 December 2016 totalled £47,623,000 (2015: £44,960,000). Amounts owed by the Company at 31 December 2016 totalled £34,072,000 (2015: £28,678,000).

The Company and certain subsidiary undertakings have entered into cross guarantees over bank loans and overdrafts to the Company. The total value of such borrowings at 31 December 2016 was £13,119,000 (2015: £15,109,000).

Five year Group financial summary

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Revenue	**158,712**	155,898	137,639	105,542	86,333
Adjusted operating profit[1]	**38,753**	36,553	32,639	26,065	22,820
Profit before tax	**25,333**	10,932	28,540	24,635	24,059
Earnings per share – basic	**30.4p**	7.2p	35.3p	32.6p	32.5p
Earnings per share – adjusted[1]	**49.4p**	45.3p	39.5p	34.0p	30.8p
Dividends paid to Company's shareholders	**14,704**	13,307	11,533	10,056	8,237
Dividends per ordinary share	**23.4p**	21.2p	18.4p	16.0p	14.2p
Total equity	**114,142**	107,046	114,908	104,123	64,065
Cash generated from operations[2]	**37,973**	36,528	38,333	32,627	27,402
Net (debt)/cash	**(430)**	(9,109)	(11,817)	(13,491)	7,711
Average number of employees	**1,875**	1,863	1,611	1,356	1,116

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items. Earnings per share calculations also adjust for the related tax and non-controlling interest impact.

2 Stated after deduction of capitalised development costs and the cash impact of exceptional items.

Shareholder information

Internet

The Group's investor website can be found at www.emisgroupplc.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.emisgroupplc.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 at: Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, tel. 0871 664 0300, calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The registrar is open between 9.00am and 5.30pm, Monday to Friday, excluding public holidays in England and Wales. 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.moneyadviceservice.org.uk.

You can find out more information about investment scams, how to protect yourself and how to report any suspicious telephone calls to the Financial Conduct Authority (FCA) by visiting their website (www.fca.org.uk) or contacting them on 0800 111 6768.

Payment of dividends

Shareholders may find it more convenient to make arrangements to have dividends paid directly 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 Asset Services, 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.emisgroupplc.com/investors.

Directors and advisers

Directors

Executive

Chris Spencer – Chief Executive Officer

Peter Southby – Chief Financial Officer

Non-executive

Mike O'Leary – Chairman

Robin Taylor – Senior Independent Non-executive Director

Kevin Boyd – Independent Non-executive Director

Andy McKeon – Independent Non-executive Director

David Sides – Independent Non-executive Director

Company Secretary

Simon Waite

Company number

06553923 (England and Wales)

Registered Office

Rawdon House
Green Lane
Yeadon
Leeds LS19 7BY

Auditor

KPMG LLP

1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Nominated adviser and broker

Numis Securities Limited

The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Registrars

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham BR3 4TU

Financial PR

MHP Communications

60 Great Portland Street
London W1W 7RT

Legal advisers to the Company

Pinsent Masons LLP

1 Park Row
Leeds LS1 5AB

Schofield Sweeney LLP

Church Bank
Bradford
BD1 4DY

EMIS Group plc

Registered Office
Rawdon House
Green Lane
Yeadon
Leeds LS19 7BY

Tel: 0113 380 3000
www.emisgroupplc.com

EMIS Group plc Annual report and accounts 2016