

microgen

**microgen plc**  
*annual report*

2015

# Directors, Officers and Advisors

## Directors and Company Secretary

### **Martyn Ratcliffe**

Executive Chairman

Martyn Ratcliffe was appointed a non-executive director of Microgen plc ("Microgen") on 7 May 1998 and Chairman on 31 July 1998. Mr Ratcliffe is also Executive Chairman of Science Group plc. Mr Ratcliffe will be retiring from the Board on 4 March 2016 following the release of the 2015 results.

### **Ivan Martin**

Non-Executive Director and Chairman Designate

Ivan Martin was appointed non-executive director and Chairman Designate on 1 January 2016 and will assume the role of Non-Executive Chairman on 4 March 2016 following the release of the 2015 results. Mr Martin is also Non-Executive Chairman of FDM Group (Holdings) plc.

### **Simon Baines**

Managing Director, Financial Systems

Simon Baines was appointed to the Board on 1 January 2016 having joined Microgen in 2010 as Managing Director of the Financial Systems business. Prior to joining Microgen Mr Baines worked in private equity covering financial services technology companies.

### **Tom Crawford**

Managing Director, Aptitude Software

Tom Crawford was appointed to the Board on 1 January 2016 having joined the group in 2003. Mr Crawford was appointed Head of Aptitude Software USA operations in 2010 before being promoted to Managing Director of Aptitude Software in 2013, a role that divides his time between Boston and London.

### **Philip Wood**

Group Finance Director

Philip Wood was appointed Group Finance Director on 2 January 2007. A Chartered Accountant, Mr Wood spent seven years with AttentiV Systems Group plc and its group companies during which time he, as Group Finance Director, oversaw the group's flotation in 2004 and subsequent acquisition in 2005 by Tieto Corporation.

### **Peter Bertram**

Senior Independent Non-Executive Director

Peter Bertram was appointed as a non-executive director on 3 October 2006 and Chairman of the Audit Committee on 1 May 2007. On 19 April 2011 Mr Bertram was appointed as the senior independent non-executive director, a role he will hold until the 2016 Annual General Meeting. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Bertram is also Chairman of Ten Alps plc.

### **Peter Whiting**

Non-Executive Director

Peter Whiting was appointed as a non-executive director on 2 February 2012. Mr Whiting has over twenty years' experience as an investment analyst, specialising in the software and IT services sector. He joined UBS in 2000, led the UK small and mid-cap research team and was Chief Operating Officer of UBS European Equity Research from 2007 to 2011. Mr Whiting is currently non-executive director at FDM Group (Holdings) plc. Mr Whiting will assume the role of Remuneration Committee Chair following the 2016 Annual General Meeting and will also become the senior independent non-executive director at that time.

### **Vanda Murray OBE**

Non-Executive Director

Vanda Murray was appointed as a non-executive director on 1 September 2011. On 1 January 2012 Ms Murray was appointed Chair of the Remuneration Committee, a role she will hold until the 2016 Annual General Meeting. Ms Murray was Chief Executive Officer of Blick plc from 2001 to 2004 and is currently non-executive director of Bunzl plc, Exova Group plc, Fenner plc and The Manchester Airports Holdings Limited.

### **Anjum O'Neill**

Company Secretary and Group Legal Counsel

Anjum O'Neill was appointed as Company Secretary on 7 October 2008. Mrs O'Neill joined the Group in 2004 and has held the role of Group Legal Counsel since 1 March 2007. She is a Solicitor of England and Wales.

## Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
1 Embankment Place  
London WC2N 6RH

## Financial Advisors and Stockbroker

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

## Financial Public Relations

FTI Consulting LLP  
200 Aldersgate  
Aldersgate Street  
London EC1A 4HD

## Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## Registered Office

Old Change House  
128 Queen Victoria Street  
London EC4V 4BJ

## **STRATEGIC REPORT**

- 2 Chairman's Statement
- 4 Aptitude Software Report
- 6 Financial Systems Report
- 8 Group Financial Performance and Finance Director's Report
- 9 Report of the Directors

## **GOVERNANCE**

- 21 Corporate Governance Statement
- 28 Directors' Remuneration Report

## **FINANCIAL STATEMENTS**

- 45 Independent Auditors' Report to the members of Microgen plc
- 51 Consolidated Income Statement
- 52 Consolidated Statement of Comprehensive Income
- 53 Balance Sheets
- 54 Consolidated Statement of Changes in Shareholders' Equity
- 55 Company Statement of Changes in Shareholders' Equity
- 56 Statements of Cash Flows
- 57 Notes to the Consolidated Financial Statements

## **SUPPLEMENTARY INFORMATION**

- 100 Shareholder Information

# Chairman's Statement

The Group reports another year of resilient financial performance, in line with the Board's expectations, along with good progress in execution of the strategic plans of the Group's two operating businesses as set out in the Strategic Review issued in October 2013.

The Aptitude Software business, benefitting from the increase in investment initiated in 2013, signed a record number of key software contracts with new and existing clients in 2015. The business has secured these contracts within both Europe and North America across its key markets of financial services and telecommunications. In addition, Aptitude Software has in 2016 already signed a contract with a major new North American telco for the Aptitude Revenue Recognition Engine. With revenue growth stimulated by the 2013 investment, the resulting 38% increase in operating profit reported for 2015 is in line with the anticipated return on the 2013 investment programme.

Similarly, in accordance with the strategic objectives set out in the 2013 Strategic Review, the Financial Systems business has continued its focus on the Trust & Fund Administration ("T&FA") market within the wealth management sector. The business completed two further acquisitions in 2015 and continues to experience good demand for Microgen 5Series, its leading T&FA product. As a result of this progress 43% of Financial Systems' overall revenues in 2015 were derived from the T&FA sector (2014: 33%) with second half revenue of 47% reflecting the benefit of the acquisitions. As anticipated, and consistent with the defined strategy, the business maintained its stable position within the payments market whilst the Applications Management operations declined in line with management expectations.

In early 2015 the Group returned approximately £20 million to shareholders via the B/C Share Scheme. This completed the programme initiated in October 2008, during which Microgen returned approximately £70 million, equivalent to 190% of the market capitalisation at the time of initiation. Pursuant to the above return to shareholders, the Board has assessed the prospects of the Group and, in view of the resilience of the Group's financial performance, considered that the total cost of the dividend should be maintained at the level prior to the B/C Share Scheme and accompanying share consolidation. The directors therefore propose the payment of a final dividend of 2.8 pence per share (2014: 2.2 pence), making a total of 4.2 pence per share for the year (2014: 3.3 pence), an increase of 27% per share. The proposed final dividend will be paid on 3 June 2016, subject to shareholder approval, to shareholders on the register at 29 April 2016.

In line with previous announcements Martyn Ratcliffe will be retiring from the Board on 4 March 2016. Ivan Martin, who joined the Board in January 2016, will assume the role of Non-Executive Chairman. Tom Crawford and Simon Baines, the Managing Directors of the two operating divisions also joined the Board in January 2016. The Non-Executive Directors provide continuity through these developments and the changes in their responsibilities were announced in January 2016.

In conclusion, as all organisations should, Microgen continues to evolve. The past 18 years have comprised three distinct phases, starting with the transformation from a microfiche and printing business in a precarious financial position through a disposal and acquisition strategy into the current operating businesses providing market-leading financial software applications with a consistently resilient financial performance. The global financial crisis stimulated the 2008 Strategic Review which resulted in a change in the Group's capital allocation policy, a programme that has since returned 190% of the October 2008 market capitalisation to shareholders, whilst maintaining a very strong balance sheet throughout. As market confidence returned, the 2013 Strategic Review concluded that shareholder interests would be best served by an increase in investment in the two operating businesses and the results in 2015 reflect the success of the execution of those strategies. With a return to growth, good forward visibility, strong operating margins, a well-covered dividend yield, a robust balance sheet and an excellent management team, Microgen is well positioned as the Group enters its next evolutionary phase.

**Martyn Ratcliffe**  
Chairman

3 March 2016

# **Aptitude Software**

## *Report*

The Aptitude Software business provides an enterprise level Application Platform to deliver solutions, typically where customers require very rapid processing of very high volume complex, business event-driven transactions. The capabilities of the Aptitude technology platform have been applied to the development of a number of specialised finance applications including the Aptitude Accounting Hub, Aptitude Allocation Engine and Aptitude Revenue Recognition Engine. The Aptitude technology platform and the Aptitude-based finance applications continue to be developed at the Aptitude Technology Centre in Wroclaw, Poland. The business generates revenue from this software through a combination of licence fees (primarily annual recurring licences), software maintenance/support and professional services.

Revenue increased during the year ended 31 December 2015 by 9% to £16.7 million (2014: £15.4 million). With the growth in revenue stimulated by the increased investment following the 2013 Strategic Review, the profitability increase also reflects the defined strategy with operating profit in 2015 increasing by 38% to £1.7 million (2014: £1.2 million).

The Board's strategic objective of increasing software revenue is the leading performance metric for the Aptitude business. Aptitude's reported software revenue in 2015 was £9.0 million (2014: £8.8 million) with the benefit of recent new wins compensating for the end-of-life of the legacy OST-BR product in 2014, a transition that is now complete. The on-going recurring revenue base increased during the year by 20% to £9.0 million (31 December 2014: £7.5 million) the benefit from which should be seen in 2016. (Software revenue includes annual and initial licence fees, software maintenance and support. Aptitude's software revenue in 2015 includes £0.5 million of initial licence fees and £0.3 million in 2014).

Services revenue has grown by 17% to £7.7 million in 2015 (2014: £6.6 million). The Aptitude Software business enters 2016 with good visibility over its services revenue for the year benefitting from software system implementations at a number of existing clients and demand for services correlating with the new contract wins in 2015. Whilst the growth of services revenue is not a strategic objective the provision of key consultancy skills to our user base helps the continued growth and development of the customer base. There is some concentration of resources upon a small number of customers providing potential for some volatility of Aptitude's services revenue as projects progress through their life-cycle.

During the course of 2015 the business signed eight software contracts with new and existing customers, a record number for the Aptitude Software business. These contracts are with clients in both North America and Europe across the key markets of financial services and telecommunications. Particularly pleasing is the growth in the relationship with two existing major international telecommunications clients who have contracted for additional software following their initial contract. In addition, in February 2016, the business signed a contract with another major new North American telco. A number of clients are now licenced to use the Aptitude Revenue Recognition Engine application, an Aptitude-based finance application which addresses the new IFRS 15 accounting requirement which is effective for accounting periods beginning on 1 January 2018. The strength of the functionality and performance of the application, together with its endorsement by these leading telecommunications companies, provides encouragement that further success will be achieved in opportunities being progressed for this application. In addition to the Aptitude Revenue Recognition Engine, new software contracts for the Aptitude Accounting Hub and Aptitude Allocation Engine applications have been entered into in 2015 as well as the Aptitude technology platform itself which is licenced to customers alongside the finance applications. This strong performance affirms the success of the 2013 Strategic Review and the execution of the associated investment programme.

Research and development expenditure in the year was £4.3 million (2014: £4.3 million) with the proportion of investment focussed on the Aptitude-based applications increasing. All research and development costs are expensed as incurred. The Aptitude-based finance applications continue to benefit from the investment in the Aptitude technology platform allowing both rapid development of the applications and very high processing performance and integrity in the applications themselves. New functionality has been added to the Aptitude technology platform in 2015, including a SAP Hana interface and Hadoop capability. Additionally, the business continues to monitor a number of potential market opportunities which may benefit in due course from the development of Aptitude-based finance applications.

In summary, the business is progressing well with its strategy to accelerate its growth by focussing and leveraging the existing expertise in high volume transaction sectors by providing Aptitude-based finance engines and specialist applications to meet new accounting standards, regulations or business areas poorly served by ERP systems. Operating performance was in line with management expectations and the strong sales performance in 2015 secured a record number of new software contracts which provide the Aptitude business with good visibility for the current year, reinforced by the major new telco customer win at the start of 2016.

**Tom Crawford**

Managing Director, Aptitude Software

3 March 2016

# Financial Systems

## Report

The Financial Systems business has a well-established customer base with an increasing focus on the Trust & Fund Administration (“T&FA”) sector. Revenues are generated through a combination of software licence fees (primarily annual recurring licences), software maintenance/support and professional services.

Revenue for the year ended 31 December 2015 increased by 6% to £15.2 million (2014: £14.4 million). Recurring revenue accounts for 83% (2014: 81%) of total revenue, with 25% being generated by the top 5 clients (2014: 24%).

The 2013 Strategic Review set out the strategy of the business to increase the proportion of revenue derived from T&FA and adjacent sectors through both organic growth and add-on acquisitions, while maximising value from the business’ other revenue streams. Revenue from the T&FA products has increased by 38% to £6.5 million (2014: £4.7 million) benefitting from the three acquisitions completed since December 2014 and the continued success of the Microgen 5Series product. As a result of this progress 43% of Financial Systems’ overall revenues in 2015 were derived from the T&FA sector (2014: 33%) with a second half run-rate of 47%, on track with the defined strategy.

The functional strength of the Microgen 5Series product has resulted in nine new customers being contracted in 2015 including implementations in the developing Asian and more established Channel Islands markets. Progress has continued in 2016 with a number of new contracts signed already in the year. The credentials of Microgen 5Series have been strengthened further following a major US bank going live in December 2015 with one of the largest deployments of the product.

The three acquisitions, contributing £1.4 million revenue in 2015, have provided the Financial Systems business with an increased client and recurring revenue base within T&FA. A number of the acquired clients have either committed to convert to Microgen 5Series or are in discussions to do so. All three acquisitions have been successfully integrated with Financial Systems retaining an office in Jersey, an important market for its T&FA products. Further add-on acquisitions continue to be evaluated within T&FA and adjacent markets, although the Board remains prudent and, as always, there can be no certainty that any acquisitions will be completed.

Revenue from the payment software product remains very stable and in line with prior years at £1.3 million whilst the Application Management business reported revenue in line with management expectations at £7.4 million (2014: £8.4 million). The Application Management business comprises a number of software solutions focussed principally on financial services. Consistent with the maturity of the solutions provided by the business it is expected that revenues will continue to reduce in line with recent periods, but continue to contribute for an extended future period due to the high levels of recurring revenue and strong margins.



The business reported strong adjusted operating profit reflecting the timing of the acquisitions and subsequent integration programme in line with expectations of £7.2 million (2014: £7.5 million) representing an adjusted operating margin of 48% (2014: 52%). Operating profit on a statutory basis was £5.0 million (2014: £7.1 million) which includes net non-underlying operating costs in 2015 of £2.2 million (2014: £0.4 million). This includes a one-off property cost in respect of the Fleet freehold property where employees are to be relocated to a smaller leasehold office in the Fleet area with an anticipated overhead cost reduction of approximately £0.2 million per annum. The closure of the Financial Systems' Cape Town support office was completed in 2015 as planned for which a cost of £0.2 million was provided for in 2014. (Further detail in respect of non-underlying items is provided in the Finance Director's Report).

In summary, the Financial Systems business performed in line with expectations during 2015 and the business enters 2016 with high levels of recurring revenue and a strong pipeline for the Microgen 5Series product. Furthermore, the business strengthened its presence within the T&FA market in line with the defined strategy, through the add-on acquisitions, the benefits of which will be recognised in the current year.

**Simon Baines**

Managing Director, Financial Systems

3 March 2016

# **Group Financial Performance and**

## *Finance Director's Report*

Throughout this statement adjusted operating profit and margin excludes non-underlying operating items, unless stated to the contrary.

Revenue for the year ended 31 December 2015 was £32.0 million (2014: £29.8 million) producing an adjusted operating profit of £7.6 million (2014: £7.4 million). Operating profit on a statutory basis was £5.3 million (2014: £6.2 million) pursuant to net non-underlying costs of £2.3 million (2014: £1.2 million). Group overhead costs were £1.3 million (2014: £1.3 million). The Group reported a profit for the year attributable to shareholders of £3.7 million (2014: £4.1 million). In accordance with IFRS, the Board has continued to determine that all internal research and development costs are expensed as incurred and therefore the Group has no capitalisation of development expenditure. The overall group expenditure on research, development and support activities in 2015 was £6.8 million (2014: £6.5 million) with the increase principally attributable to the acquisitions within the Financial Systems business. Headcount at 31 December 2015 was 266 including contractors and associates (31 December 2014: 257).

Net non-underlying operating costs in 2015 were £2.3 million (2014: £1.2 million) including a £1.6 million loss in respect of Financial Systems' Fleet freehold property for which a £2.4 million sale was agreed in November 2015 with completion scheduled for the first half of 2016. Other non-underlying operating items relating to the Financial Systems business total £0.6 million and include £0.4 million in respect of amortisation of acquired intangible assets with a further £0.4 million related to acquisition and associated restructuring costs, offset by the receipt of a £0.2 million settlement from a client pursuant to a breach of software licence. In addition, there is a £0.1 million share option charge arising from the shareholder approved grants in 2013 (2014: £0.8 million).

The total tax charge for the year is £1.2 million (2014: £1.7 million). After adjusting for the effect of non-underlying and other items, the Group's tax charge represents 21.5% of the Group's adjusted profit before tax (2014: 22.5%) which is the tax rate used for calculating the adjusted earnings per share. Adjusted earnings per share for the year ended 31 December 2015 was 9.2 pence (2014: 7.2 pence) benefitting from the share consolidation in the year. Basic earnings per share for the year was 6.0 pence (2014: 5.5 pence)

The Group has a strong balance sheet with net assets at 31 December 2015 of £38.6 million (2014: £56.5 million), including cash at 31 December 2015 of £18.6 million (2014: £40.9 million), and net funds at 31 December 2015 of £5.4 million (2014: £24.6 million). The reduction in cash reflects the corporate cash outflows in 2015 of £25.3 million (comprising £22.4 million returned to shareholders by way of dividends & the B/C Share Scheme, together with net consideration related to acquisitions of £2.9 million). The loan outstanding, secured solely on the Financial Systems business, at 31 December 2015 was £13.3 million (2014: £16.3 million). Trade and other receivables outstanding at 31 December 2015 have increased to £4.7 million (2014: £3.2 million) due to a combination of the effects of contracts signed towards the end of the year and the acquisitions. The same factors have resulted in deferred income increasing by 12% to £17.0 million at 31 December 2015 (2014: £15.2 million).

Continuing to be a focus of the Group, cash conversion (measured by cash generated from operations as a percentage of operating profit adjusted for the non-underlying items with no cash effect) was 102% in the year (2014: 142%).

**Philip Wood**  
Group Finance Director

3 March 2016

The directors of Microgen plc (the “Company”) present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2015.

### **Results and Dividends**

The results for the year are set out in the financial statements and notes that appear on pages 51 to 99. As explained in the Chairman’s Statement, the directors propose the payment of a final dividend of 2.8 pence per share, making a total of 4.2 pence per share for the year (2014: 3.3 pence). The proposed final dividend will be paid on 3 June 2016, subject to shareholder approval, to shareholders on the register at 29 April 2016.

The ordinary dividends paid in 2015 totalled £2.1 million (2014: £2.5 million).

### **Principal Activities**

The Company is the corporate parent of information technology businesses, operated as independent business units. The Group’s products and services are currently provided through two operating businesses which are detailed within the reports on pages 4 and 6.

### **Key Performance Indicators**

The Key Performance Indicators are set for each of the Group’s two operating businesses and can be found in the reports on pages 4 and 6. The Key Performance Indicators for the Financial Systems business are Operating Profit before Non-Underlying Items; Recurring Revenue; and growth in the Trust and Fund Administration sector. The Key Performance Indicators for the Aptitude Software business are Revenue Growth and Recurring Software-based Revenue Growth.

### **Principal Risks and Uncertainties**

The management of the business and the execution of the Group’s strategy are subject to a number of risks. As detailed on page 21 risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate such risks where feasible. The key business risks for the Group are set out in the table on pages 11 and 12.

### **Statement of Directors’ Responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

# **Report of the**

## *Directors*

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the front of this report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

**Table detailing Principal Risks and Uncertainties**

Major Risks and Uncertainties	Explanation	Mitigating Action
Demand for the Group's products may be adversely affected if economic and market conditions are unfavourable	Adverse economic conditions worldwide can contribute to slowdowns in the Information Technology spending environment and may impact the Group's business resulting in reduced demand for its products as a result of decreased spending by customers and increased price competition for the Group's products. The Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the directors' control.	The Group's preferred annual licence fee model and recurring revenue provides some resilience against the full effects of market deterioration. Additionally, the Group operates in multiple geographic regions and, while it has a material exposure to the financial services sector, operates in a number of business sectors.
If the Group does not expand or enhance its product offerings or respond effectively to technological change, the business may be negatively affected	The Group's future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address customer requirements in a cost effective manner. If the Group does not expand or enhance its product offerings or respond effectively to technological change, its business may be negatively affected. Additionally, there is a risk that the Group's technological approach will not achieve broad market acceptance or that other technologies or solutions will supplant the Group's approach. Some of the Group's markets are characterised by rapid technological change, frequent introduction of new products, changes in customer requirements and evolving industry standards.	The development of new products and enhancement of existing ones is overseen by monthly forums which are attended by senior managers from relevant functions of the business.
There is substantial competition in the Group's markets which could adversely affect the Group	Some of the markets for the Group's products are competitive, rapidly evolving and subject to rapid technological change. As a result the Group expects competition to persist, intensify and increase in the future. There are no substantial barriers to entry into these markets and some of the Group's competitors are large organisations with far greater financial resources than Microgen. The Group's ability to compete is dependent upon many factors within and beyond the Group's control, including (a) timing and market acceptance of new solutions and enhancements to existing solutions developed by the Group and its competitors (b) performance, ease of use and reliability of the Group's products (c) price (d) customer service and support and (e) sales and marketing efforts.	Where appropriate the Group performs product development and marketing activities to improve the competitiveness of its products. In addition significant proposals are reviewed by senior managers and, if appropriate, the Board.
The Group's products have lengthy sales and implementation cycles, which could adversely affect the Group's business	Sales of the Group's software products may require the Group to engage in a lengthy sales effort, and these lengthy periods or delays in customer deployment of a product could materially adversely affect the Group's operating results or financial condition. The Group's sales efforts include significant education of prospective customers regarding the use and benefits of the Group's products. As a result, the sales cycle for the Group's products varies. In addition, the implementation of the Group's products involves a significant commitment of resources by customers over an extended period of time. The Group's sales and customer implementation cycles may be subject to a number of potential delays. These include delays related to product development and implementation as well as delays over which the Group has little or no control, including (a) customers' budgetary constraints (b) internal acceptance reviews (c) customers' purchasing processes (d) the complexity of customers' technical needs and (e) changing customer requirements.	Business processes in support of each stage in the major contract life cycle (bid, in life, renewal and termination) are well established. All significant proposals and contracts are subject to review by senior managers and, if appropriate, the Board.
The Group's operating businesses are dependent on a number of major clients and contracts	A significant part of the revenue of the Group's operating businesses may be derived from large contracts. Loss of or reduction in revenue from any one or more of these clients (either as a result of external factors or other factors such as performance on contracts) as well as any expiry without renewal or delay of these contracts could adversely affect the Group's business and results of operations.	Managers of the Group regularly meet with major clients to identify any factors which may, if not addressed, result in loss of revenue. Any significant issues are reported to the senior managers and, if appropriate, the Board. The Group continues to aim to expand its client base to reduce its dependency on any one client.
Potential future acquisitions by the Group may have unexpected material adverse consequences	Acquisitions are part of the strategy for the Group as a whole and the Financial Systems business in particular. Acquisitions involve numerous risks which may have unexpected adverse material consequences.	Due diligence is performed when potential acquisitions are identified and all acquisitions require Board approval.
If the Group loses its key personnel or cannot recruit additional personnel, the Group's business may suffer	The Group's success greatly depends on its ability to hire, train, retain and motivate qualified personnel, particularly in sales, marketing, research and development, consultancy services and support. The Group faces significant competition for individuals with the skills required to perform the services the Group will offer. If the Group is unable to attract and retain qualified personnel it could be prevented from effectively managing and expanding its business.	The Remuneration Committee regularly reviews the Group's compensation policies to endeavour to ensure that it can continue to attract, motivate and retain qualified personnel.

# Report of the Directors

**Table detailing Principal Risks and Uncertainties (continued)**

Other Risks and Uncertainties	Explanations	Mitigating Action
Claims by others that the Group's products or brands infringe on their intellectual property rights could be costly to defend and could harm the Group's business	The Group may be subject to claims by others that the Group's products or brands infringe on or misappropriate their intellectual property or other property rights. These claims, whether or not valid, could require the Group to spend significant sums in litigation, distract management attention from the business, pay damages, delay or cancel product shipments, rebrand or re-engineer the Group's products or acquire licences to third party intellectual property. In the event that the Group needs to acquire a third party licence, the Group may not be able to secure it on commercially reasonable terms, or at all.	The Group's legal function regularly reviews methods by which it can protect its own intellectual property rights and avoid infringing the intellectual property rights of third parties. This has resulted in both the registration of trade marks and patent applications where considered appropriate.
The Group's reputation as a quality professional service provider may be adversely affected by any failure to meet its contractual obligations, customer expectations or agreed services levels	The Group's ability to attract new customers or retain existing customers is largely dependent on its ability to provide reliable high quality products and services to them and to maintain a good reputation. Because many of the engagements of the Group involve projects that are critical to the business operations and information systems of clients, the failure or inability of the Group to meet a client's expectations could have an adverse effect on the client's operations and could result in damage to the reputation of the Group. Certain contracts may provide for a reduction in fees payable by the client if service levels fall below certain specified thresholds, thus potentially reducing or eliminating the profit margin on any particular contract. If the Group fails to meet its contractual obligations or perform to client expectations, it could be subject to legal liability or damage to its reputation and the client may ultimately be entitled to terminate the contract.	The Group employs highly skilled personnel and has business processes in place to endeavour to ensure that any lapse is quickly identified and addressed. In addition, significant issues are reported to senior managers and, if appropriate, the Board.
The Group's software products may contain undetected errors and have dependency upon integration with third party products	<p>The Group's products involve sophisticated technology that perform critical functions to highly demanding standards. Software products as complex as those offered by the Group might contain undetected errors or failures. If flaws in design, production, assembly or testing of the Group's products (by the Group or the Group's suppliers) were to occur, the Group could experience a rate of failure in its products that would result in substantial repair, replacement or service costs and potential liability and damage to the Group's reputation. The Group will not be able to be certain that, despite testing by the Group and by current and prospective customers, flaws will not be found in products or product enhancements. Any flaws found may cause substantial harm to the Group's reputation and result in additional unplanned expenses to remedy any defects, and liability stemming therefrom, as well as a loss in revenue and profit.</p> <p>In addition, third party products and databases have been included in or integrated with the Group's products under licences granted to the Group or its customers. If any such licence was to expire without renewal or be otherwise terminated, the Group or the relevant customer would need to cease use of, and remove or disintegrate, the relevant third party product or database which could be costly, time-consuming and cause significant disruption to the Group's business. Any such removal or disintegration of third party products or databases would necessitate changes to, and/or the re-engineering of, the Group's products which could also be costly, time-consuming and cause significant disruption to the Group's product development strategies and otherwise adversely affect the Group's business. Even if such third party licences are not terminated, the Group's reliance on third party products or databases could limit and/or adversely affect its ability to control the future development of its own products.</p>	Development activities including software quality and integration with third party products and databases are reviewed in regular monthly meetings with senior managers. The Group's software testing processes are also well established.
The Financial Systems business may not be able to comply with its obligations under its loan agreements	The Financial Systems business has a loan secured solely on its assets. The loan agreement has a number of obligations and financial covenants that, if not complied with, may lead to default.	The Board approved the terms of the loan and regularly monitors forecast adherence to financial covenants. Included within the loan agreement is the ability of the Group to cure any financial covenant breaches on a limited number of occasions. To mitigate the interest rate risk associated with the loan the Financial Systems business of the Group has entered into an interest rate swap which effectively fixes the interest payable on the loan to 3.24% per annum.

## Going Concern and Viability Statement

The directors, having made appropriate enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Board determined that it would be reasonable to perform this review for a period of three years and considered the Group's cash flows, loan compliance and other key financial indicators over the period. Sensitivity analysis was then performed with a number of the main assumptions underlying the forecast flexed both individually and in aggregate. Where appropriate, this analysis was carried out to evaluate the potential impacts of the Group's principal risks actually occurring.

Based on the results of the review the directors confirm that they have a reasonable expectation that the Group will continue to operate and meets its liabilities, as they fall due, for the next three years. The directors' assessment has been made with reference to the Group's current position and prospects, the Group's current strategy, the Board's current risk appetite and the Group's principal risks and how these are managed. As notified, the long-standing Chairman is retiring from the Board and a successor has been appointed, effective on 4 March 2016 following the release of the 2015 Results. It is therefore possible that there may be changes to the Board's strategy and other key factors in the future which are not incorporated into the assessment and analysis undertaken.

## Employment Policies and Gender Diversity

The Group is committed to offering equal employment opportunities and its policies are designed to attract, retain and motivate the best staff regardless of gender, race, colour, religion, ethnic or national origin, age, marital status, disability, sexual orientation or any other conditions not relevant to the performance of the job, who can demonstrate that they have the necessary skills and abilities. The Group gives proper consideration to applications for employment when these are received from disabled persons and will employ them in posts whenever suitable vacancies arise. Staff who become disabled will be retained whenever possible through retraining, use of appropriate technology and making available suitable alternative employment.

The following table reports on the gender diversity within the Group's workforce at 31 December 2015:

	Board diversity		Top leadership diversity		Total workforce diversity	
	2015	2014	2015	2014	2015	2014
Men	<b>4</b>	4	<b>10</b>	11	<b>202</b>	195
Women	<b>1</b>	1	<b>3</b>	3	<b>64</b>	62
Men %	<b>80%</b>	80%	<b>77%</b>	79%	<b>76%</b>	76%
Women %	<b>20%</b>	20%	<b>23%</b>	21%	<b>24%</b>	24%

The Group encourages the participation of all employees in the operation and development of the business and has a policy of regular communications including overviews of the Group's financial performance. The Group incentivises employees and senior management through the payment of bonuses linked to performance objectives, together with the other components of remuneration detailed in the Directors' Remuneration Report.

## Environmental Policy

As a supplier of software solutions the Group's operations do not have a significant impact on the environment. The Group has no manufacturing facilities and its premises exclusively comprise offices. Any obsolete office equipment and

# Report of the

## Directors

computers are resold or recycled to the extent practicable. The Group has recycling facilities in all of its offices and use of waste paper is minimised by promoting a paperless process and downloadable software products. However the Group recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to:

- comply with relevant environmental legislation;
- reduce waste and, where practicable, re-use and recycle consumables;
- dispose of non-recyclable items in an environmentally friendly manner;
- minimise the consumption of energy and resources in the Group's operations; and
- reduce the environmental impact of the Group's activities and where possible increase the procurement of environmentally friendly products.

### Greenhouse Gas Emissions

The Company complies with the greenhouse gas ("GHG") emissions reporting requirements of The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. The Company reports all material GHG emissions, wherever possible using 'tonnes of CO<sub>2</sub>-equivalent' ("tCO<sub>2</sub>e") as the unit, to account for all GHGs which are attributable to human activity, as defined in section 92 of the Climate Change Act 2008(a). Emissions data is reported for the Group's operations in the UK, Poland, Guernsey, Jersey, the USA and South Africa. The methodology used to compile this data is in accordance with the requirements of the following standards: the World Resources Institute's Greenhouse Gas Protocol (revised version); Defra's Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance (June 2013) and ISO 14064 – part 1.

Material GHG emissions from business activities in 2015 totalled 866 tCO<sub>2</sub>e (2014: 990 tCO<sub>2</sub>e), consisting of:

- 168 tCO<sub>2</sub>e (2014: 197 tCO<sub>2</sub>e) from the combustion of fuel and the operation of any facilities; and
- 698 tCO<sub>2</sub>e (2014: 793 tCO<sub>2</sub>e) from the purchase of electricity, heat, steam or cooling by the Group for its own use.

	<b>Emissions source</b>	<b>tCO<sub>2</sub>e 2015</b>	<b>tCO<sub>2</sub>e 2014</b>
CO <sub>2</sub> e from the combustion of fuel and the operation of any facilities	Natural gas	146	155
	Refrigerant	20	40
	Owned vehicles	2	2
CO <sub>2</sub> e from the purchase of electricity, heat, steam or cooling by the company for its own use	Purchased electricity	698	793
	<b>Total</b>	<b>866</b>	<b>990</b>

Carbon intensity ratio for this reporting period was 27.1 tCO<sub>2</sub>e (2014: 33.1 tCO<sub>2</sub>e) per £1,000,000 turnover.

In 2015 the World Resources Institute introduced updates to the Greenhouse Gas Protocol stating that organisations should provide two numbers to reflect the emissions from the purchase of electricity, heat, steam or cooling. The location based method reflects average emissions intensity of grids on which energy consumption occurs. The market based method reflects emissions from electricity that companies have chosen.



Country	Electricity generation (location based) tCO <sub>2</sub> e	Electricity generation (market based) tCO <sub>2</sub> e	Instrument types
UK	375	338	Mix of supplier/utility emission rate and national level grid-average emission factor
Poland	251	251	National grid average emission factor
Channel Islands	37	31	Mix of supplier/utility emission rate and national level grid-average emission factor
South Africa	30	30	National grid average emission factor
USA	5	5	National grid average emission factor
<b>Total</b>	<b>698</b>	<b>656</b>	

Where it has not been practical to gather data on energy use for the Group's smaller offices typical energy consumption figures have been used. In addition, a CO<sub>2</sub> equivalent conversion factor is not available for all locations so a CO<sub>2</sub> only factor is used for those affected locations.

The Group's financial reporting year is the calendar year, however the Group has set its greenhouse gas emissions reporting period back by a quarter to facilitate data collection. Therefore, the reporting period for greenhouse gas emissions is 1 October 2014 to 30 September 2015. The Company reports on sources of GHG over which operational control is held and which are associated with the business activities covered in this Report of the Directors.

## Donations

The charitable donations made in the year by the Company and its subsidiaries total £1,000 (2014: nil).

## Substantial Shareholdings

In accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, as at 1 March 2016, the Company had been advised of the following notifiable interests in its voting rights:

	Number of shares	% Issued Share Capital
Schroders plc	11,632,272	19.70
Aberforth Partners LLP	8,321,627	14.09
P F and C C M Barbour*	5,293,031	8.96
The Wellcome Trust Limited	4,123,805	6.98
M R Ratcliffe	4,117,963	6.97
Invesco Limited	3,104,058	5.26
FIL Limited	2,916,742	4.93
Hargreave Hale Limited	2,782,111	4.71
L G Crisp and Mrs H Crisp	2,120,690	3.59
Herald Investment Management Limited	1,963,889	3.33

\* CCM Barbour holds 3,122,413 of the voting rights of these shares. CCM Barbour and PF Barbour are interested in a further 2,170,618 shares however neither have any voting rights in these shares.

## Share Capital

At 3 March 2016 the Company had a single class of share capital which is divided into ordinary shares of 6 3/7 pence each.

# **Report of the**

## *Directors*

### **Rights and Obligations Attaching to Shares**

#### Voting in Meetings of the Company

Voting at a general meeting shall be on a show of hands unless a poll is demanded. On a show of hands, every shareholder present in person and every proxy duly appointed by a shareholder shall have one vote. On a poll, every shareholder who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

No shareholder shall be entitled to vote at any general meeting or class meeting in respect of shares held by him or her if any call or other sum then payable by him or her in respect of that share remains unpaid. Currently, all issued shares are fully paid.

#### Deadlines for Voting Rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 25 April 2016 are set out in the Notice of Meeting which accompanies this report.

#### Dividends and Distributions

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to shareholders but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends or special dividends of such amounts, on such dates and in respect of such periods as the Board think fit. If in the opinion of the Board the profits available for distribution justify such payments, the Board may declare and pay the fixed dividends on any class of shares carrying a fixed dividend (if any). All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

#### Transfer of shares

Subject to the Articles, any shareholder may transfer all or any of his or her certified shares in writing by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion and without giving any reasons, decline to register any instrument of transfer of a certified share which is not a fully paid share provided that, where any such shares are admitted to the Official List maintained by the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The Board may decline to recognise any instrument of transfer relating to shares in certificated form unless it is in respect of only one class of share and is lodged (duly stamped) at the Company's registered office or such other place as the Board have appointed accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transfer or to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). In the case of a transfer of shares in certificated form a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four transferees. Subject to the Articles and the CREST Rules (as defined in the Uncertificated Securities Regulations, as amended), and apart from any class of wholly dematerialised security, the Board may permit any class of shares in the Company to be held in uncertificated form and, subject to the Articles, title to uncertificated shares to be transferred by means of a relevant system.

### **Change of Control**

Under the terms of the Company's share option schemes, upon a change of control of the Company following a takeover bid, an option holder shall be entitled to exercise the relevant option within a time period of not more than

six (6) months. This would allow the exercise of awards subject to the discretion of the Remuneration Committee as to whether relevant performance conditions have been sufficiently satisfied. There are a small number of customer contracts which include a change of control clause in relation to the Group. Two senior managers have change of control agreements which increase the notice receivable by one individual from 3 to 6 months and the other individual from 6 to 12 months in the event of a change of control of the Company.

### **Amendment to the Articles**

Amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of a special resolution in general meeting.

### **Appointment and Replacement of Directors**

Unless and until otherwise determined by ordinary resolution of the Company, directors shall be no less than two (2) and no more than ten (10) in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting and then shall be eligible for re-election by the shareholders.

The Board may from time to time appoint one or more directors to undertake such services for the Company that the Board may decide and such persons (other than those who hold an executive office or are employees of the Company or any subsidiary) will be entitled to be paid such fees as the Board will determine for their services to the Company as directors but will not exceed in aggregate the sum of £1,000,000 per annum (excluding bonus arrangements and incentive schemes of the Company) or such greater sum as the Company in general meeting may determine.

The Company by ordinary resolution, of which special notice has been given, may remove any Director before the expiration of his or her term of office and the Company may elect another person in place of a Director so removed from office.

The office of Director shall be vacated if:

- (i) he or she in writing resigns or offers to resign and the directors accept such offer;
- (ii) an order is made by any court claiming that he or she is or may be suffering from a mental disorder;
- (iii) he or she is absent without permission of the Board from meetings for six months and the Board resolves that his or her office is vacated;
- (iv) he or she becomes bankrupt or compounds with his or her creditors generally;
- (v) he or she is prohibited by law from being a director;
- (vi) he or she is removed from office pursuant to the Articles;
- (vii) a registered medical practitioner who is treating that person gives a written opinion to the Company stating that the director has become physically or mentally incapable of acting as a director and may remain so for more than three (3) months.

# Report of the Directors

## Repurchase of Own Shares, 2015 Return of Value and Share Consolidation

At the General Meeting of Microgen held on 18 March 2015, shareholders approved a return of value of approximately £20 million by way of a B/C Share Scheme of 27 pence for each ordinary share of 5 pence held on 18 March 2015. At this time there was a share consolidation on the basis of 7 ordinary shares of 6 3/7 pence each in place of every 9 ordinary shares of 5 pence each. Following the return of value the B/C shares issued to shareholders have been cancelled pursuant to the provisions set out in the Articles of Association of the Company.

At the Annual General Meeting held on 18 May 2015 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 5,803,052 ordinary shares of 6 3/7 pence each. Such purchases could be made at no more than 5% above the average of the middle market quotations derived from the London Stock Exchange daily official list on the five business days prior to the date of purchase, nor less than 6 3/7 pence each. No shares have been purchased under this renewed authority. A resolution to give the Directors further authority for the Company to purchase its own shares is to be proposed at the forthcoming Annual General Meeting on 25 April 2016.

## Significant Contracts

There did not exist at any time during the year any contract involving the Company or any of its subsidiaries in which a director of the Company was or is materially interested or any contract which was either a contract of significance with a controlling shareholder or a contract for the provision of service by a controlling shareholder. Related party transactions are disclosed on page 99.

## Directors

Details of directors who have held office during the year and up to the date of signing these financial statements are given below:

Martyn Ratcliffe  
Ivan Martin (appointed 1 January 2016)  
Simon Baines (appointed 1 January 2016)  
Tom Crawford (appointed 1 January 2016)  
Philip Wood  
Peter Bertram  
Vanda Murray  
Peter Whiting

Biographical details of the current directors are given on the inside front cover of this Annual Report. Mr Martin, Mr Baines and Mr Crawford were appointed as directors with effect from 1 January 2016 and stand for re-election, as is required for directors at the Annual General Meeting following their appointment. Having completed nine years' service as a non-executive director Mr Bertram also stands for re-election to serve until the 2017 Annual General Meeting at which time he will retire from the Board. Mr Ratcliffe will be retiring from the Board on 4 March 2016 after the release of the 2015 results at which time Mr Martin will assume the role of Non-Executive Chairman.

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained at article 138 of the Company's articles of association. Pursuant to this article 138, the Company has granted indemnities for the benefit of

current and future directors of, and the Company Secretary of, the Company in respect of liabilities which may attach to them in their capacity as directors of, or Company Secretary of, the Company to the extent permitted by law and also committing to maintain directors' and officers' insurance cover. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2015 and continue in force, in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors (or Company Secretary).

### **Treasury and Foreign Exchange**

The Group has in place appropriate treasury policies and procedures, which are approved by the Board. The treasury function manages interest rates for both borrowings and cash deposits for the Group and is also responsible for ensuring there is sufficient headroom against any banking covenants contained within its credit facilities, and for ensuring there are appropriate facilities available to meet the Group's strategic plans.

In order to mitigate and manage exchange rate risk, the Group routinely enters into forward contracts in respect of monthly transactions with the Group's Polish development organisation. The Group continues to monitor exchange rate risk in respect of other foreign currency exposures.

In order to mitigate and manage interest rate risk the Group has in place an effective interest rate hedge to manage exposure on borrowings. Interest rate swaps are used as cash flow hedges of future interest payments, which have the effect of increasing the proportion of fixed interest debt.

These treasury policies and procedures are regularly monitored and reviewed. It is the Group's policy not to undertake speculative transactions which create additional exposures over and above those arising from normal trading activity.

See page 64 for further information on the Group's management of financial risk.

### **Creditor Payment Policy**

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made in line with these terms, subject to the terms and conditions being met by suppliers.

The Company has trade creditors of £64,000 at 31 December 2015 (2014: £13,000).

At 31 December 2015, for the Group the average number of days of annual purchases represented by year end creditors was 41 days (31 December 2014: 25 days).

### **Auditors and Disclosure of Information to Auditors**

As far as the directors are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditors are unaware and each of the directors have taken the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

# **Report of the** *Directors*

## **Corporate Governance**

The Group's statement on corporate governance is included in the Corporate Governance Statement on pages 21 to 27, and is incorporated into this Report of the Directors by reference.

## **Annual General Meeting**

The forthcoming Annual General Meeting will be held at 9.00 am on 25 April 2016 at Old Change House, 128 Queen Victoria Street, London EC4V 4BJ. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

By Order of the Board

**Philip Wood**  
Director

3 March 2016

## Statement

### Statement of Compliance

The Group has applied the main principles set out in the UK Corporate Governance Code ("Code"). A full statement of compliance with the Code's main principles of the Code of Best Practice is on pages 26 to 27.

The Company has complied with the Code throughout the year ended 31 December 2015, other than the exception stated as follows:

A.2.1 – Chairman and Chief Executive – The Corporate Governance Code requires that the roles of Chairman and Chief Executive should not be exercised by the same individual. Mr Ratcliffe was Executive Chairman throughout 2015. The Board was satisfied that the combined role was in the interest of shareholders throughout 2015 due to the Group's operating businesses being managed by the Managing Directors and associated management teams of each business with the Group roles providing a holding company function, including corporate governance, corporate/strategic direction and operational oversight. The Board maintained a majority of independent non-executive directors in 2015 ensuring robust corporate governance. Mr Ratcliffe will be retiring from the Board on 4 March 2016 following the release of the 2015 results at which time Mr Martin will assume the role of Non-Executive Chairman. The Managing Directors of the Group's two businesses, Simon Baines and Tom Crawford, also joined the Board on 1 January 2016.

### Board of Directors

The Board of Directors meets regularly to review strategic, operational and financial matters, including proposed acquisitions and divestments, and has a formal schedule of matters reserved to it for decision. It approves the interim and preliminary financial statements, the annual financial plan, significant contracts and capital investment in addition to reviewing the effectiveness of the internal control systems and business risks faced by the Group. Where appropriate, it has delegated authority to committees of directors. Information is supplied to the Board in advance of meetings and the Chairman ensures that all directors are properly briefed on the matters being discussed. Prior to their appointment to the Board on 1 January 2016 the Managing Directors of each of the operating businesses attended the Board Meetings providing detailed presentations and updates on the performance of their business.

The Chairman is primarily responsible for management of the Board, corporate strategy and development and ensuring effective communication with shareholders. The Managing Directors of each operating business are responsible for managing their respective businesses.

Non-executive directors are appointed for specified terms, up to a maximum of three years, and reappointment is not automatic. There is a formal selection process to appoint non-executive directors and a separate Nomination Committee was formed in 2001. Mr Bertram is the senior independent non-executive director until the 2016 Annual General Meeting at which time Mr Whiting will assume responsibility for the role. The Board considers that all of the non-executive directors are independent in character and judgement from the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of the non-executive directors have extensive business experience.

All directors have access to the advice and services of the Company Secretary or a suitably qualified alternative, and all the directors are able to take independent professional advice, if necessary, at the Company's expense. Directors offer themselves for re-election at the Annual General Meeting following their appointment by the Board and thereafter in accordance with the Company's current Articles of Association which requires directors to retire from office and offer themselves for reappointment by the members if they were not appointed or reappointed at one of the preceding two Annual General Meetings.

# Corporate Governance

## Statement

### **Board Committees**

Throughout 2015 each of Mr Bertram, Ms Murray and Mr Whiting served on the Nomination, Remuneration and Audit Committees and Mr Ratcliffe served on the Nomination Committee. Mr Martin joined the Committees at the time of his appointment to the Board on 1 January 2016. The Committees have written terms of reference which clearly specify their authority and duties and those terms of reference are available upon written request to the Company.

#### Nomination Committee

Throughout 2015 Mr Ratcliffe was chairman of the Nomination Committee which also comprised Mr Bertram, Ms Murray and Mr Whiting. Mr Martin joined the Nomination Committee on 1 January 2016 and will assume its chairmanship after the release of the 2015 results. The Nomination Committee meets at least once a year and recommends to the Board candidates for appointment as directors and reappointment.

The Board and the Board Committees recognise the importance of promoting all aspects of diversity, including gender, throughout the Group. When making an appointment to the Board, candidates are chosen against criteria, specified by the Nomination Committee in 2011, such as balance of skills, business experience, independence, qualifications, knowledge, diversity and other factors relevant to the Board operating effectively. Successful candidates are chosen on merit against these criteria, regardless of race, gender or religious beliefs.

#### Remuneration Committee

Ms Murray is chair of the Remuneration Committee and the Committee also comprises Mr Bertram, Mr Whiting and, with effect from 1 January 2016, Mr Martin. Mr Whiting will assume the role of Remuneration Committee chair with effect from the 2016 Annual General Meeting. The Directors' Remuneration Report appears on pages 28 to 44.

#### Audit Committee

Mr Bertram, a Fellow of the Institute of Chartered Accountants in England and Wales, is chairman of the Audit Committee and the Committee also comprises Ms Murray, Mr Whiting and, with effect from 1 January 2016, Mr Martin. The Audit Committee monitors the integrity of the financial statements of the Company and meets regularly with management and the external auditors to review and monitor the financial reporting process, the statutory audit of the consolidated financial statements, audit procedures, internal controls and financial matters.

The external auditors present in advance of the year end its approach to the forthcoming audit together with its findings from the audit following the completion of its work. The Audit Committee assesses the performance of the external auditors on an annual basis and based on this review the Audit Committee recommends the appointment, reappointment or removal of the Company's external auditors to the Board. This review resulted in the Audit Committee determining to retain PricewaterhouseCoopers LLP as auditors for the Group's 2015 financial statements.

Mr Ratcliffe, the Managing Directors and the Group Finance Director attended the Audit Committee meetings throughout 2015 by invitation. The Audit Committee meets at least annually with the Company's external auditors without the other directors present. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee considers that, in some circumstances, the external auditors' understanding of the business can be beneficial in improving the efficiency and effectiveness of advisory work and, therefore, it has been considered appropriate that the external auditors be engaged for non-audit services related to financial and tax matters. The Audit Committee has reviewed the nature of the work and level of fees for non-audit services and considers that this



has not affected the auditors' objectivity and independence. The expenditure on non-audit services is set out on page 73.

The Audit Committee reports to the Board on how it has discharged its responsibilities. This includes identifying the significant issues that it has considered in relation to the financial statements and how these issues were addressed, its assessment of the effectiveness of the external audit process and its recommendation on the reappointment of the Company's external auditors together with any other issues on which the Board has asked the Audit Committee's opinion.

The significant judgements considered by the Audit Committee were:-

### **Revenue Recognition**

A key area of judgement in respect of recognising revenue is the timing of recognition where management assumptions and estimates are necessary. The Audit Committee were provided with an overview of significant balances, together with the movement on those balances since the previous year end. In addition, the Audit Committee receives an overview of significant contracts entered into during the course of the year which provides the opportunity to discuss the impact of contractual terms on revenue recognition. External audit performed detailed audit procedures on revenue recognition and reported their findings to the Audit Committee. The Audit Committee concluded that the timing of recognition continues to be in line with the Group's accounting policy on revenue recognition.

### **Annual Goodwill Impairment Review**

Goodwill is a material asset on the Group's balance sheet and it is the Group's policy to annually test the asset for impairment. The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the operating businesses. The key assumptions applied in the calculation relate to the future performance expectations of the businesses. Plans prepared by senior management supporting the future performance expectations used in the calculation were reviewed and approved by the Board. The Audit Committee received a presentation on the outcome of the impairment review performed by senior management. The impairment review was also an area of focus for the external auditor, who reported their findings to the Audit Committee. The Audit Committee concluded that there was no requirement to impair the carrying value of goodwill at the year end.

### **Tax**

The operating businesses operate in a number of territories which increases the complexity of the Group's tax affairs. A presentation was prepared by senior management for the Board and Audit Committee to consider. The presentation provided an overview of the Group's tax affairs together with the proposed accounting treatment of any judgemental items. The Audit Committee concluded that they were satisfied with the accounting treatment.

# Corporate Governance

## Statement

### Board Attendance

Details of the number of meetings of the Board (including sub-committees at which only certain directors are required to attend) and committees and individual attendances by directors are set out in the table below.

	<b>Board Meetings</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>
<b>Number of Meetings held in 2015</b>	11	3	7	5
Martyn Ratcliffe	11	3*	7*	5
Philip Wood	11	3*	7*	5*
Peter Bertram	11	3	7	5
Vanda Murray	11	3	7	5
Peter Whiting	11	3	7	5

\* attendance by invitation.

The above table details attendance at scheduled meetings. In addition 8 ad hoc meetings were held, of these meetings, 2 meetings were held by a sub-committee relating to the exercise of share options.

### Management Meetings of the Operating Businesses

Each of the Group's two operating businesses hold management meetings on a monthly basis chaired by the Managing Director responsible for that business. All Directors are invited to attend these meetings.

### Relations with Shareholders

In order to maintain dialogue with institutional shareholders the Chairman and Group Finance Director meet with key shareholders. After the release of the 2015 results Mr Martin (the new Chairman), the Managing Directors and the Group Finance Director will meet with key shareholders as appropriate. Other directors are available to meet key shareholders on request. Where practicable the Annual Report is sent to shareholders at least 20 working days before the Annual General Meeting and each issue for consideration at the Annual General Meeting is proposed as a separate resolution. All continuing directors generally attend the Annual General Meeting.

### Capital Structure

The information required pursuant to the Disclosure and Transparency Rules is detailed on pages 15 and 16.

### Social, Ethical and Environmental Risks

The Board takes regular account of the significance of social, environmental and ethical ("SEE") matters to the Group's business of providing IT services and solutions (including software, managed services and consultancy) to the business community.

The Board considers that it has received adequate information to enable it to assess any significant risks to the Company's short-term and long-term value arising from SEE matters and has concluded that the risks associated with SEE matters are minimal. The Board will continue to monitor those risks on an ongoing basis and will implement appropriate policies and procedures if those risks become significant.

### Internal Control

The Group maintains an ongoing process in respect of internal control to safeguard shareholders' investments and the Group's assets and to facilitate the effective and efficient operation of the Group.

These processes enable the Group to respond appropriately, and in a timely fashion, to significant business, operational, financial, compliance and other risks, (in accordance with the Code), which may otherwise prevent the achievement of the Group's objectives.

The Group recognises that it operates in a competitive market that can be affected by factors and events outside its control. Details of the major risks identified by the Group are set out in the table on pages 11 and 12. The Group is committed to mitigating risks arising wherever possible and accepts that internal controls, rigorously applied and monitored, are an essential tool in achieving this objective.

The key elements of Group internal control, which have been effective during 2015 and up to the date of approval of these financial statements, are set out below:

- The existence of a clear organisational structure with defined lines of responsibility and delegation of authority from the Board to its executive directors and operating divisions;
- A procedure for the regular review of reporting business issues and risks by the operating businesses;
- Regular reviews at Board meetings with the operating management;
- A planning and management reporting system operated by each operating business and the executive directors; and
- The establishment of prudent operating and financial policies.

The directors have overall responsibility for establishing financial and other reporting procedures to provide them with a reasonable basis on which to make proper judgements as to the financial position and prospects of the Group, and have responsibility for establishing the Group's system of internal control and for monitoring its effectiveness. The Group's systems are designed to provide directors with reasonable assurance that physical and financial assets are safeguarded, transactions are authorised and properly recorded and material errors and irregularities are either prevented or detected with the minimum delay. However, systems of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

The key features of the systems of internal financial control include:

- Financial planning process with an annual financial plan approved by the Board. The plan is regularly updated providing an updated forecast for the year;
- Monthly comparison of actual results against plan;
- Written procedures detailing operational and financial internal control policies which are reviewed on a regular basis;
- Regular reporting to the Board on treasury and legal matters;
- Defined investment control guidelines and procedures; and
- Periodic reviews by the Audit Committee of the Group's systems and procedures.

The majority of the Group's financial and management information is processed and stored on computer systems. The Group is dependent on systems that require sophisticated computer networks. The Group has established controls and procedures over the security of data held on such systems, including business continuity arrangements.

On behalf of the Board, the Audit Committee has reviewed the operation and effectiveness of this framework of internal control for the year ended 31 December 2015, and up to the date of approval of the Annual Report.

# Corporate Governance

## Statement

### Internal Audit

The need for an internal audit function is reviewed on an annual basis by the Audit Committee taking into account the size and complexity of the Group. At present there is no intention to establish an internal audit function.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE		
	Code of Best Practice – Principles	Microgen Compliance Statement
<b>A</b>	<b>LEADERSHIP</b>	
<b>1</b>	<p><b>The Role of the Board</b> Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.</p>	The directors' responsibilities are outlined in the Report of the Directors. The Board meets regularly on a formal basis and for additional ad hoc meetings as necessary.
<b>2</b>	<p><b>Division of Responsibilities</b> There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.</p>	The Board had an Executive Chairman throughout 2015 with each of the two operating businesses being the responsibility of a Managing Director. From March 2016 there will be a Non-Executive Chairman with two executive directors responsible for the running of the two operating businesses.
<b>3</b>	<p><b>The Chairman</b> The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.</p>	The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. He promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. In addition, he ensures that the directors receive accurate, timely and clear information.
<b>4</b>	<p><b>Non-Executive Directors</b> As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.</p>	The Board appoints one of the independent non-executive directors to be the senior independent non-executive director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary. The senior independent non-executive director is available to shareholders if they have concerns which contact through the normal channels of the Chairman, Managing Directors (from their appointment to the Board on 1 January 2016) or Group Finance Director fails to resolve or for which such contact is inappropriate. The Chairman holds meetings with the non-executive directors without the Managing Directors or Group Finance Director being present. Led by the senior independent non-executive director, the non-executive directors meet without the Chairman at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. If the directors have concerns which cannot be resolved about the running of the Company or a proposed action, then they ensure that their concerns are recorded in the Board minutes. On their resignation, a non-executive director has to provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.
<b>B</b>	<b>EFFECTIVENESS</b>	
<b>1</b>	<p><b>The Composition of the Board</b> The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.</p>	All of the non-executive directors (including those detailed in the Statement of Compliance) are considered by the Board to be independent of the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board consisted of a majority of non-executive directors throughout 2015.
<b>2</b>	<p><b>Appointments to the Board</b> There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.</p>	A separate Nomination Committee, comprising all the non-executive directors together with the Chairman, is responsible for identifying and nominating candidates to fill Board vacancies.
<b>3</b>	<p><b>Commitment</b> All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.</p>	The Chairman's other significant commitments are disclosed in the Annual Report. Any changes to such commitments are reported to the Board as they arise and their impact explained in the next Annual Report. Executive directors will not be given permission by the Board to take on more than one directorship in a company nor chairman of such a company. The terms and conditions of appointment of non-executive directors are made available for inspection. The letter of appointment sets out the expected time commitment. The appointed non-executive directors have undertaken that they will have sufficient time to meet what is expected of them.
<b>4</b>	<p><b>Development</b> All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.</p>	The Chairman ensures that new directors receive an induction on joining the Board. Any training needs required by the directors will be discussed with the Chairman.

<b>COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (continued)</b>	
<b>Code of Best Practice - Principles</b>	<b>Microgen Compliance Statement</b>
<b>B EFFECTIVENESS</b>	
<b>5 Information and Support</b> The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	The Board is supplied with management accounts and operational reviews prior to each meeting. All non-executive directors have extensive business experience and possess relevant and updated skills and knowledge to perform their duties. The Board ensures that directors, especially non-executive directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibility as directors. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole.
<b>6 Evaluation</b> The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	Given Microgen's size and Board structure, performance evaluation is an ongoing process. A performance evaluation is undertaken for all directors at the time of their proposed reappointment. The Managing Directors and Group Finance Director receive an annual performance appraisal as part of the Management Bonus Scheme. The performance of each Board Committee is reviewed on an annual basis.
<b>7 Re-election</b> All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	Non-executive directors are appointed for specific terms, up to a maximum of three years and re-appointment is not automatic. All directors offer themselves for election at the Annual General Meeting following their appointment and for re-election thereafter in accordance with the Company's articles, which require one-third of directors to retire in rotation at each Annual General Meeting. The Board sets out to shareholders in papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The Chairman confirms to shareholders when proposing re-election that the non-executive director's performance remains effective.
<b>C ACCOUNTABILITY</b>	
<b>1 Financial and Business Reporting</b> The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Board considers it is in compliance with this requirement.
<b>2 Risk Management and Internal Control</b> The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain a sound risk management and internal control systems.	The Company operates a detailed internal control process which is reviewed at least on an annual basis by the Audit Committee and endorsed by the Board. Further information is provided in the Corporate Governance Statement.
<b>3 Audit Committee and Auditors</b> The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	The Audit Committee consists of all non-executive directors and meets at least three times a year. Mr Ratcliffe, the Managing Directors and Group Finance Director were invited to attend in 2015 but the Audit Committee meets at least annually with the Company's auditors without the other directors present. The Board ensures that at least one member of the Audit Committee has recent and relevant financial experience.
<b>D REMUNERATION</b>	
<b>1 The Level and Components of Remuneration</b> Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.	The Directors' Remuneration Report provides details of the executive directors' remuneration.
<b>2 Procedure</b> There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	Remuneration packages for individual directors are set by the Remuneration Committee after receiving information from independent sources and if required the Company's Human Resources function. Mr Ratcliffe, the Managing Directors and Group Finance Director were invited to attend the Committee's meetings in 2015.
<b>E RELATIONS WITH SHAREHOLDERS</b>	
<b>1 Dialogue with Shareholders</b> There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	The Chairman and the Group Finance Director meet with key shareholders. After the release of the 2015 results Mr Martin (the new Chairman), the Managing Directors and the Group Finance Director will meet key shareholders as appropriate. Non-executive directors are available to meet institutional shareholders if requested.
<b>2 Constructive Use of General Meetings</b> The board should use the general meetings to communicate with investors and to encourage their participation.	The Company arranges for the Notice of the Annual General Meeting and related papers to be sent to shareholders at least 20 working days before the meeting and for other general meetings at least 14 working days before the meeting. All continuing directors make themselves available at the Annual General Meeting to respond to any questions raised by the investors in attendance.

# **Directors' Remuneration**

## *Report*

### **Introduction**

On behalf of the Board, I am pleased to present the Remuneration Committee's ("Committee") report of the directors' remuneration for the year ended 31 December 2015.

This report is prepared in accordance with The Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and is set out in two sections: the Directors' Remuneration Policy and the Annual Report on Remuneration. At the Company's Annual General Meeting on 28 April 2014, shareholders voted in favour of the Directors' Remuneration Policy.

### **Reporting and policy requirements**

There follows below Part A being the Directors' Remuneration Policy which was approved by shareholders at the Annual General Meeting on 28 April 2014 and Part B being the Annual Report on Remuneration which will be voted upon at the Annual General Meeting on 25 April 2016.

### **Compliance**

This report (comprising this introduction and Parts A and B) has been prepared in accordance with the Companies Act 2006 and The Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the UK Authority's Listing Rules and the Disclosure and Transparency Rules. The Committee further adopts the principles of good governance as set out in the UK Corporate Governance Code.

**THE FOLLOWING DIRECTORS' REMUNERATION POLICY WAS APPROVED BY SHAREHOLDERS AT THE ANNUAL GENERAL MEETING ON 28 APRIL 2014 AND IS PROVIDED FOR INFORMATION PURPOSES ONLY. FOR EASE OF READERSHIP ONLY, THE DIRECTORS' REMUNERATION POLICY HAS BEEN UPDATED, A VERSION OF THE ORIGINAL TEXT AND CHARTS CAN BE FOUND IN THE ANNUAL REPORT 2013 AT WWW.MICROGEN.COM. THIS DIRECTORS' REMUNERATION POLICY IS NOT SUBJECT TO VOTE AT THE ANNUAL GENERAL MEETING ON 25 APRIL 2016**

#### **A. DIRECTORS' REMUNERATION POLICY ("POLICY")**

This section of the report sets out the Policy which was approved by shareholders at the 2014 Annual General Meeting. All elements of the Policy were observed by the Committee from 28 April 2014 (the date of the Company's Annual General Meeting) and formally came into effect on 1 January 2015 and shall apply for the period of three years thereafter.

Details relating to how the remuneration policy was implemented during the year ended 31 December 2015 are set out below in Part B as this Part A sets out the remuneration policy of the Company which came into effect on 1 January 2015.

#### **Remuneration policy for Executive Directors**

The Policy for the Executive Directors and other senior executives is based on the following principles, and takes into account prevailing best practice, shareholder expectations, and the remuneration of the wider employee population:

- Determine remuneration by reference to individual performance, experience and prevailing market conditions, with a view to providing a package appropriate to the responsibilities involved;
- Align interests of directors and senior executives with those of the shareholders;
- Ensure remuneration arrangements support the Group's business strategy;
- Encourage the right behaviours, drive performance and reward results; and
- Deliver median/upper quartile pay for median/upper quartile performance.

#### **Ongoing policy commitments**

At the General Meeting held on 18 November 2013 shareholders approved a regular programme of PSP share awards which shall continue to apply during the period to which this Directors' Remuneration Policy applies up to 31 December 2016, such programme being described on pages 42 and 43.

# Directors' Remuneration

## Report

### Executive Directors' Policy Table

The following will apply to any remuneration and loss of office payments made to the Executive Directors on or after the Company's Annual General Meeting on 28 April 2014 up to and including 31 December 2017. The policy table below makes reference to the role of Executive Chairman, a position which has been held by Mr Ratcliffe since the initial application of the policy on 28 April 2014. Mr Ratcliffe is retiring from the Board on 4 March 2016 following the release of the 2015 results at which time the role of Chairman will become non-executive.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Basic salary</b> To pay competitive basic salary to attract, retain and motivate the talent required to operate and develop the Group's businesses and to develop and deliver the Group's strategy</p>	<p>Basic salaries are reviewed on an annual basis with reference to (i) scope of the role, (ii) performance and experience of the individual, (iii) pay levels at comparable companies, and (iv) pay and conditions elsewhere in the Group. Basic salaries are also reviewed when an individual changes roles or responsibilities.</p>	<p>Salary increases will typically be in line with the increases awarded to other employees in the Group. In exceptional circumstances at the Committee's discretion, increases of a higher amount may be made taking into account individual circumstances such as:</p> <ul style="list-style-type: none"> <li>a material increase in scope or responsibility of the individual's role;</li> <li>development of the individual within the role (including enhanced performance);</li> <li>alignment to market level and/or</li> <li>necessary for the retention of an Executive Director.</li> </ul>	<p>None, although overall performance of the individual will be taken into consideration by the Committee when setting and reviewing salary levels.</p>
<p><b>Pension</b> To provide an opportunity for executives to build up income on retirement</p>	<p>All Executive Directors (excluding the Executive Chairman) are eligible to participate in the Group Personal Pension Scheme or receive a contribution to self-invested personal pension schemes.</p>	<p>The Group matches employee contributions on a 2:1 basis with employer contributions not exceeding 6% of basic salary. No element other than basic salary is pensionable.</p>	<p>None. Not performance related.</p>
<p><b>Benefits</b> To provide market-competitive non-cash benefits</p>	<p>Executive Directors (excluding the Executive Chairman) receive benefits which consist primarily of income protection in the event of long-term ill health, private healthcare insurance, death-in-service benefits and car fuel benefits. From 1 January 2016 car fuel benefits to Executive Directors will no longer be provided.</p>	<p>Benefits may vary by role and are set at levels which the Committee considers to be sufficient based on the role and individual circumstances.</p>	<p>None. Not performance related.</p>
<p><b>Management Bonus Scheme</b> To incentivise and reward strong performance against financial and non-financial annual targets, thus delivering value to shareholders</p>	<p>Performance targets are set in the first quarter of the financial year. The Committee then assess actual performance compared to those performance targets following the completion of the financial year and determine the bonus payable to each individual. Bonus payments are delivered in cash and clawback provisions exist which entitle the Committee, at its discretion, to seek repayment of up to 25% of net bonus payment for a period of 18 months after the end of the relevant bonus year.</p>	<p>For Executive Directors (excluding the Executive Chairman) on-target performance shall not exceed 50% of salary and maximum performance shall not exceed 100% of salary. The Executive Chairman does not participate in the Management Bonus Scheme and any bonus paid to him is separately and solely determined by the Committee and will be put forward for approval by shareholders at a General Meeting. The maximum bonus amount that the Committee can recommend to shareholders is up to 100% of basic salary.</p>	<p>Performance is determined by the Committee on an annual basis by reference to the following metrics:</p> <ul style="list-style-type: none"> <li>50% of the award is based on financial measures; and</li> <li>50% of the award is based on strategic measures (all subject to financial under-pin).</li> </ul> <p>Previously 100% of the award was based on financial measures, however following the Strategic Review, the Committee believes that it is appropriate to adjust the metrics as above. The Committee anticipates that the metrics will be adjusted to a 75% / 25% split within the three year period ending 31 December 2017.</p>



**Executive Directors' Policy Table (continued)**

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p><b>Performance Share Plan (PSP)</b> To drive sustained long-term performance that supports the creation of shareholder value</p>	<p>The PSP is used to provide a meaningful reward to senior executives linked to the long-term success of the business, by delivering annual awards of nominal-cost options.</p>	<p>Other than in respect of awards specifically approved by shareholders, the PSP provides for awards of up to a maximum limit of 100% of basic salary for Executive Directors in the 12 calendar months immediately preceding the date of grant, with a limit of 200% in exceptional circumstances.</p> <p>The awards, approved by shareholders at the General Meeting held on 18 November 2013, are excluded in calculating the maximum limits detailed above.</p>	<p>Other than in respect of awards specifically approved by shareholders, vesting of PSP awards is subject to continued employment and performance against demanding performance measures.</p> <p>Awards made under the PSP will have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards will lapse.</p>
<p><b>Company Share Option Plan (CSOP)</b> To align management and shareholder interests and to recognise significant achievement</p>	<p>Option grants are made from time to time at the Committee's discretion.</p>	<p>Under the Company Share Option Plan – Part A which was approved by HMRC and introduced in 2006, any aggregate outstanding CSOP awards made to a participant may not exceed £30,000.</p> <p>The Company Share Option Plan – Part B, also introduced in 2006, is an unapproved plan and except in exceptional circumstances to be determined by the Committee, the CSOP provides for awards of up to a maximum limit of 100% or 200% of basic salary for Executive Directors in the 12 calendar months immediately preceding the date of grant.</p>	<p>Vesting of options awards is subject to continued employment and performance.</p> <p>The measures weightings applying to each performance measure may vary year-on-year to reflect strategic priorities.</p> <p>Awards made under the options plans will have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards will lapse.</p>

**Exceptional circumstances exception**

The Committee shall be entitled to have the discretion to award remuneration to an individual outside of the scope of the Executive Directors' Policy Table whose appointment to the Company as an Executive Director is being contemplated by the Committee in exceptional circumstances and where the interests of the Group require an exception to be made in order to secure the recruitment successfully.

**Notes to the Policy Table**

**Selection of performance measures – Management Bonus Scheme**

The performance measures under the Management Bonus Scheme are selected annually to reflect the main KPIs and strategic priorities for the Group and operating businesses.

**Selection of performance measures – Performance Share Plan**

The Committee's policy is to set performance targets which are both stretching and achievable and that the maximum outcomes are only available for outstanding performance.

**Shareholding guidelines**

The Company expects Directors and senior employees when exercising PSP share options to enter into an undertaking with the Company not to dispose of more than fifty per cent (50%) of the shares until the day on which his or her holding has a market value equal to that of his or her basic salary. Any PSP share options that are sold to discharge the option holder's fiscal obligations are not treated as having been acquired by the option holder.

# Directors' Remuneration

## Report

### Remuneration policy for Non-Executive Directors

The remuneration policy for Non-Executive Directors is set by the Board having taken account of the fees in other companies of similar size and the limits set in the Company's Articles of Association. When recruiting Non-Executive Directors, the remuneration offered will be in line with the policy table below.

### Non-Executive Directors' Policy Table

The following will apply to any remuneration and loss of office payments made to the Non-Executive Directors on or after the Company's Annual General Meeting on 28 April 2014 up to and including 31 December 2017.

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company	<p>Each Non-Executive Director is paid a basic fee. Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (Audit and Remuneration) excluding the Nomination Committee.</p> <p>The fees paid to the Non-Executive Directors are determined by the Board.</p> <p>The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans or pension arrangements.</p> <p>Fee levels are benchmarked against FTSE-listed SmallCap companies of similar size and complexity. Time commitment and responsibility are taken into account when reviewing fee levels.</p>	<p>Non-Executive Director fees are reviewed by the Board once every three years with any adjustments effective 1 January of the following financial year.</p> <p>However, in the event that there is a material change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board shall seek shareholder approval to make the appropriate adjustment to the fee level.</p> <p>The maximum aggregate fees for all Non-Executive Directors permitted by the Company's Articles of Association is £1 million (excluding bonus arrangement and incentive schemes) and the overall fees paid to the Non-Executive Directors will remain within this limit.</p>	None

### Remuneration policy for other employees across the Group

The Committee's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies. Interim salary reviews are typically only proposed where an employee has a change in role or the scope of their role increases.

The Group offers three variable pay schemes to permanent employees of the Group who do not participate in the Management Bonus Scheme. These are the Sales Commission Plan, the Consultants' Bonus Scheme and the Annual Profit Share Bonus Plan. Employees participate in one of these schemes only.

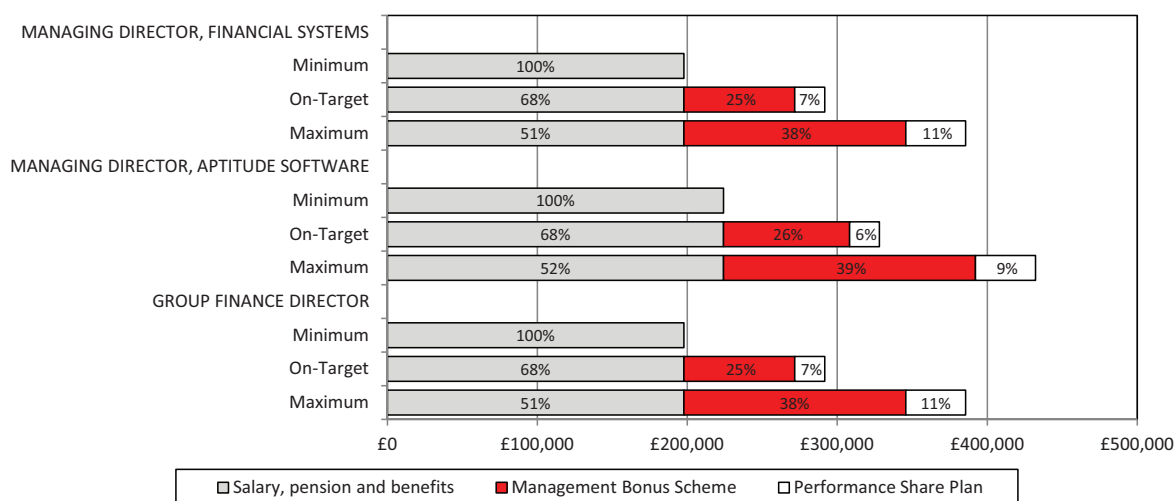
Under the Sales Commission Plan, commission is calculated and paid on a monthly basis for all commission earning sales people in the Microgen Group. Employees who are consultants and are targeted to generate fee income are eligible to participate in the Consultants' Bonus Scheme. Employees who do not participate in the Sales Commission Plan or the Consultants' Bonus Scheme are eligible to participate in an Annual Profit Share Bonus Plan where the quantum is set by the Committee in relation to Group and operating business performance. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

All employees are eligible to participate in the PSP and the CSOP and are eligible to receive option grants. Under normal conditions, performance conditions are consistent for all participants, while award sizes vary by organisational level.

**Illustrations of the application of the Executive Directors’ Remuneration Policy**

The chart below sets out an illustration in line with the Policy for the Executive Directors set out above and provides an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: ‘minimum’, ‘on-target’ and ‘maximum’.

Potential reward opportunities are based on the Policy, applied to basic salaries as at 3 March 2016. Note that the projected values exclude the impact of share price movement and actual outcomes may differ from those shown.



The ‘minimum’ scenario shows basic salary, pension and benefits (i.e. fixed remuneration) which are the only elements of the Executive Directors’ remuneration packages which are not at risk.

The ‘on-target’ scenario reflects fixed remuneration as above plus a target payout of 40% of salary from the Management Bonus Scheme. In this scenario it is assumed that the Executive Directors are granted PSP awards of a value equivalent to the average grants awarded to each individual in 2014 and 2015 with 50% ultimately vesting.

The ‘maximum’ scenario reflects fixed remuneration as above plus a payout of 80% of salary from the Management Bonus Scheme. In this scenario it is assumed that the Executive Directors are granted PSP awards of a value equivalent to the average grants awarded to each individual in 2014 and 2015 with 100% ultimately vesting.

Mr Ratcliffe, Executive Chairman, has been excluded from the above illustrations as he is retiring from the Board on 4 March 2016 following the release of the 2015 results.

# Directors' Remuneration

## Report

### Approach to Recruitment of Directors

#### Executive Directors

When hiring a new Executive Director, or promoting to the Board from within the Group, the Committee may make use of any of the existing components of remuneration as detailed in the table below. Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these remuneration arrangements.

Component	Approach	Maximum annual grant value
Basic salary	The basic salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to their development in the role	
Pension	New appointees will be eligible to participate in the Group Personal Pension Scheme or receive a contribution to self-invested personal pension schemes in line with existing executives	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) income protection in the event of long-term ill health, private healthcare insurance, death-in-service benefits and car fuel benefits	
Management Bonus Scheme	The scheme described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the individual element will be tailored towards the executive	100% of salary
Performance Share Plan	New appointees who have been invited to participate in the PSP will be granted awards under the PSP on the same terms as other executives, as described in the policy table	200% of salary

In determining appropriate remuneration package for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its shareholders. In addition, the Committee reserves the right to make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards and the likelihood of those conditions being met.

#### Exceptional circumstances exception

The Committee shall be entitled to have the discretion to award remuneration to an individual outside of the ambit of the Executive Directors' Policy Table whose appointment to the Company as an Executive Director is being contemplated by the Committee in exceptional circumstances and where the interests of the Group require an exception to be made in order to successfully secure the recruitment.

#### Non-Executive Directors

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 32. A basic fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or Chairman of the Audit or Remuneration Committees as appropriate.

## Directors' Service Contracts

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. Each Executive Director has a rolling service contract with the Group which can be terminated with written notice in accordance with the table below. Such contracts provide for an obligation to pay salary plus pension and benefits for any portion of the notice period waived by the Group. Executive Director service contracts are available to view at the Company's registered office.

Executive Director	Date of service contract	Notice period from the individual	Notice period from the employer
Martyn Ratcliffe	30 July 1998*	6 months	6 months
Simon Baines	25 May 2010**	6 months	6 months
Tom Crawford	6 April 2014**	6 months	6 months
Philip Wood	21 October 2006	6 months	6 months

\* Mr Ratcliffe will be retiring from the Board on 4 March 2016 following the release of the 2015 results.

\*\* Mr Baines and Mr Crawford joined the Group in 2010 and 2003 respectively before joining the Board on 1 January 2016.

The table below summarises how the awards under the Management Bonus Scheme and long-term incentives are typically treated in specific circumstances:

Reason for leaving	Treatment
<b>Management Bonus Scheme</b>	
Resignation	Awards lapse on the date of notice of termination.
Retirement, ill-health, disability, death, change of control or redundancy	The Committee may consider it appropriate to award a bonus depending on the relevant termination scenario. If a bonus is paid then cash bonuses will typically only be paid to the extent that the relevant performance targets set at the beginning of the plan year have been met or are expected to be met in the reasonable opinion of the Committee, however, the Committee reserves the right to award full or partial bonus for the year of cessation depending on the circumstances.
<b>Performance Share Plan and Share Option Plans</b>	
Resignation	Awards lapse.
Retirement, ill-health, disability, death or redundancy	The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved. The determination of vesting will be made as soon as reasonably practical following the end of the performance period or such earlier date as the Committee may agree.
Change of Control	Microgen awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.

## Non-Executive Directors' Terms of Appointment

Subject to annual re-election by shareholders, Non-Executive Directors are appointed for an initial term of approximately three years. Subsequent terms of three years may be awarded. Details of the Non-Executive Directors' terms of appointment are shown in the table below and copies of the Non-Executive Directors' terms of appointment are available to view at the Company's registered office. The appointment, re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

	Initial agreement date	Expiry date of current agreement
Ivan Martin (appointed 1 January 2016)	21 October 2015	31 December 2018
Peter Bertram	3 October 2006	31 May 2016
Vanda Murray	1 September 2011	30 April 2017
Peter Whiting	2 February 2012	30 April 2017

# **Directors' Remuneration**

## *Report*

### **Executive Directors – External appointments**

The Executive Directors may accept external appointments of Non-Executive Directorship in order to broaden their experience for the benefit of the Company. Such appointments are subject to approval by the Board in each case, and the Executive Director may retain any fees paid in respect of such a directorship.

Mr Ratcliffe was appointed Chairman of Science Group plc on 15 April 2010 and Executive Chairman on 18 October 2012.

### **Consideration of conditions elsewhere in the Company**

Although the Committee does not consult directly with employees on executive remuneration policy, the Committee does consider general basic salary increases across the Company, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

### **Consideration of shareholder views**

The Committee is committed to an open and transparent dialogue with shareholders on matters relating to remuneration. When determining remuneration, the Committee takes into account views of shareholders and investor guidelines. The Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to remuneration policy.

## **B ANNUAL REPORT ON REMUNERATION**

The following section provides details of how Microgen's remuneration policy was implemented during the year ended 31 December 2015.

### **Role of the Remuneration Committee**

The Committee's primary function is to support the Company's strategy by ensuring its delivery is supported by the Company's remuneration policy. The Committee's responsibilities include:

- determining the Company's remuneration policy and monitoring its implementation;
- approving remuneration packages for each of the Executive Directors and the Executive Chairman;
- recommending the remuneration of the Non-Executive Directors for determination by the Board;
- determining the terms on which Performance Share Plan and Company Share Option Plan awards are made; and
- reviewing and setting performance targets for incentive plans.

The Committee's full terms of reference provide further details of the roles and responsibilities of the Committee and are available on the Company's website.

### **Remuneration Committee membership in 2015**

The membership of the Remuneration Committee as at 31 December 2015 comprised Vanda Murray, Peter Bertram and Peter Whiting and is chaired by Ms Murray. Ivan Martin joined the Committee on 1 January 2016.

Only Committee members have the right to attend Committee meetings, though other individuals such as the Executive Directors may attend by invitation. External consultants provide advice to the Committee from time to time. No individuals are involved in decisions relating to their own remuneration.

The Committee held 7 meetings during the financial year and details of members' attendance at meetings are provided in the Corporate Governance section on page 24.

# Directors' Remuneration

## Report

### Single total figure of remuneration (audited)

#### Executive Directors

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2015 and the prior year. Information is only provided for those Executive Directors who served on the Board during the year ended 31 December 2015:

	Martyn Ratcliffe		Philip Wood	
	2015	2014	2015	2014
	£	£	£	£
Basic salary	199,375	275,000	174,700	174,700
Taxable benefits*	–	–	2,534	2,822
Pension**	–	–	9,669	9,600
Management Bonus***	–	–	66,600	32,000
Long Term Incentives****	–	–	–	–
Total	199,375	275,000	253,503	219,122

\* Taxable benefits consist primarily of private healthcare insurance and car fuel benefits.

\*\* The Company paid £9,669 on behalf of Mr Wood into a self-invested personal pension scheme (2014: £9,600).

\*\*\* Payment for performance during the year under the Management Bonus Scheme. See following sections for further details.

\*\*\*\* Includes any PSP or option awards based on the value at vesting of shares or options vesting on performance in the year ending 31 December 2015. No shares or options were due to vest on performance during the year ended 31 December 2015.

#### Non-Executive Directors

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2015 and the prior year:

	Peter Bertram		Vanda Murray		Peter Whiting	
	2015	2014	2015	2014	2015	2014
	£	£	£	£	£	£
Basic salary	40,000	40,000	40,000	40,000	40,000	40,000
Committee fees	7,500	7,500	6,500	6,500	–	–
Other fees	–	–	20,000	–	–	–
Total	47,500	47,500	66,500	46,500	40,000	40,000

\* The other fee paid in 2015 to Ms Murray is due to the increased time requirement pursuant to the recruitment of a new Chairman for the Group.

### Incentive outcomes for the year ended 31 December 2015

#### Management Bonus Scheme in respect of 2015 performance

The 2015 Management Bonus Scheme for Executive Directors (except for Mr Ratcliffe who did not participate in the Scheme) is determined by the Committee by reference to the Group's financial and the Executive Director's personal performance during 2015. When assessing performance the Committee compares reported adjusted operating profit to target in addition to the consideration of other indicators of performance including customer retention, recurring revenue growth, cash flow management and achievement of other objectives. Annual bonus targets for the participants for 2015 were set up to a maximum of 50% with an overall cap of 100% of salary. Bonuses under the scheme can only be paid up to the total value of the bonus fund as approved by the Committee.

The individual performance targets set and performance against each of the metrics are deemed by the Committee to be commercially sensitive and will therefore not be disclosed.

#### Outcome

The Committee have assessed the performance of Mr Wood and have awarded him a payment under the scheme of £66,600.



**Performance Share Plan and Share Options**

The table below summarises the share options awarded and exercised during the year ending 31 December 2015;

	<b>31 December 2014</b>	<b>Awarded during the year</b>	<b>Exercised during the year</b>	<b>31 December 2015</b>
Martyn Ratcliffe	3,500,000	–	(1,000,000)	2,500,000
Philip Wood	500,000	150,000	–	650,000

On 22 October 2015 Mr Ratcliffe exercised 1,000,000 share options and sold the resulting shares. The share options were granted to Mr Ratcliffe in May 2008 with an exercise price of 52.33 pence and the accompanying performance conditions were fully satisfied.

On 21 October 2015, share options over 150,000 ordinary shares were issued to Mr Wood under the Performance Share Plan. The exercise price for the share options is 6 3/7 pence per share. These share options were granted under the authority received at the General Meeting held on 18 November 2013.

No share options vested during the year ending 31 December 2015.

**Termination payments made in the year (audited)**

No termination payments were made to Directors in the year.

**Payments to past Directors (audited)**

No payments were made to past Directors in the year.

**Implementation of remuneration policy for 2016 (audited)**

**Basic salary**

Market positioning of basic salary is reviewed on an individual basis, by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.

<b>Executive Directors</b>	<b>Basic salary from 1 January 2015</b>	<b>Basic salary from 1 January 2016</b>	<b>Percentage (reduction)/ increase</b>
Martyn Ratcliffe*	£275,000	£125,000	(55%)
Simon Baines **	–	£185,000	N/A
Tom Crawford **	–	£210,000	N/A
Philip Wood	£174,700	£185,000	6%

\* Mr Ratcliffe did not participate in the Company's pension, private medical insurance, permanent health insurance or life assurance schemes and did not receive any other fees (other than his basic salary) or benefits in kind from the Company.

\*\* Mr Baines and Mr Crawford were appointed to the Board on 1 January 2016.

Mr Ratcliffe's basic salary reduced to £192,500 per annum from 1 February 2015. With effect from 1 January 2016 Mr Ratcliffe's basic salary reduced to £125,000 per annum.

**Pension**

Mr Baines, Mr Crawford and Mr Wood participate in the Group Personal Pension Scheme or receive a contribution to self-invested personal pension schemes. Mr Ratcliffe does not participate in the Group Personal Pension Scheme.

**Management Bonus Scheme**

The maximum bonus opportunity for Executive Directors in 2016 will remain unchanged from the opportunity in 2015, and will be a maximum on-target of 50% with an overall cap of 100% of salary, however, the on-target bonus for

# Directors' Remuneration

## Report

Mr Baines, Mr Crawford and Mr Wood is 40% of basic salary with a maximum bonus of 80% of basic salary. Mr Ratcliffe does not participate in the Management Bonus Scheme and will be retiring from the Board after the release of the 2015 results. The maximum bonus amount that the Committee can recommend to shareholders is up to 100% of basic salary.

Bonuses will be based on performance compared to a number of financial metrics and the individual and strategic goals set for the year. The financial metrics include group operating profit and a number of the KPIs of each operating business. The individual and strategic goals will be subject to financial underpin. Bonuses under the scheme can only be paid up to the total value of the bonus fund as approved by the Committee.

### Long-term incentives

Mr Baines, Mr Crawford and Mr Wood were awarded share option grants in 2015 details of which are provided at page 43.

### Non-Executive Director fees

With effect from 1 January 2014, the basic fee payable to each Non-Executive Director is £40,000 per annum. The fees payable for chairing the Audit and Remuneration Committees are £7,500 and £6,500 per annum respectively.

Mr Martin, appointed Non-Executive Director and Chairman Designate on 1 January 2016 and assuming the role of Non-Executive Chairman after the release of the 2015 results, receives a fee of £125,000 per annum.

### Percentage change in Executive Chairman's remuneration (audited)

The table below shows the percentage change in Executive Chairman remuneration from the prior year compared to the average percentage change in remuneration for all other employees. Mr Ratcliffe performed the role of Executive Chairman throughout 2014 and 2015. Note, for the purposes of this disclosure, remuneration comprises salary, benefits (excluding pension) and variable pay paid in the year only of which Mr Ratcliffe is only entitled to receive salary.

	Change in remuneration from 2014 to 2015	
	Mr Ratcliffe*	Other employees**
Salary	(28%)	2%
Taxable benefits	0%	10%
Single-year variable	0%	65%
Total	(28)%	7%

\* On 1 February 2015 Mr Ratcliffe's basic salary reduced from £275,000 to £192,500. On 1 January 2016 Mr Ratcliffe's basic salary reduced to £125,000.

\*\* Based on UK employees only as the most appropriate comparator group.

### Relative importance of spend on pay (audited)

The table below shows the percentage change in spend on pay and shareholder distributions (i.e. dividends and share buybacks) from the financial year ended 31 December 2014 to the financial year ended 31 December 2015.

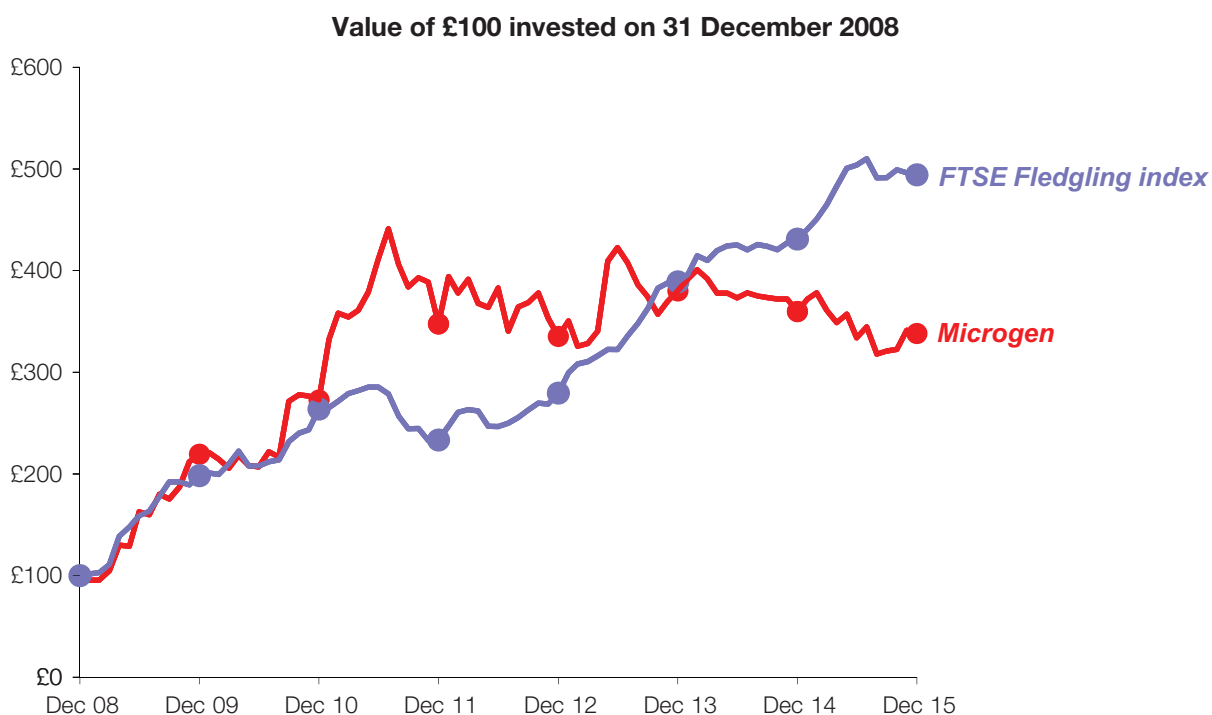
	% increase (decrease)	2015 £000	2014 £000
Return to shareholders in year	812%	22,234	2,439
Employee remuneration	8%	17,809	16,466

The return to shareholders in 2015 includes £20.1 million in respect of the 2015 return of capital (details of which are provided at page 18).

**Comparison of Company performance**

The following graph shows the Company’s performance, measured by total shareholder return, compared with the performance of the FTSE Fledgling Index for the six years ended 31 December 2015. The Committee consider that the FTSE Fledgling Index is the most appropriate comparison given the similarities between the Company and the companies forming this index.

The total shareholder return performance (as shown in the graph below) for the Company includes the impact of the dividends paid to its Shareholders across the period; however, it does not reflect the 2010, 2013 and 2015 returns of capital to shareholders.



The table below details Mr Ratcliffe’s single figure of remuneration. The audited single figures of remuneration below are prepared on the same basis as the single total figure of remuneration on page 38.

	2011	2012	2013	2014	2015
<b>Martyn Ratcliffe</b>					
Single figure of remuneration	£224,798	£205,000	£216,667*	£275,000**	<b>199,375**</b>
Bonus award as % of maximum opportunity	n/a	n/a	n/a	n/a	<b>n/a</b>
Share Option award vesting as % of maximum opportunity	100%***	n/a	n/a	n/a	<b>n/a</b>

\* Mr Ratcliffe’s basic salary increased from 1 November 2013 from £205,000 to £275,000.

\*\* Mr Ratcliffe’s basic salary reduced from £275,000 to £192,500 with effect from 1 February 2015. Mr Ratcliffe’s basic salary further reduced from £192,500 to £125,000 with effect from 1 January 2016 pursuant to a number of board changes on that date.

\*\*\* Mr Ratcliffe was awarded 1,000,000 share options under the Company Share Option Plan 2006 on 2 May 2008, these share options vested on 2 May 2011.

# Directors' Remuneration

## Report

### Directors' shareholdings (audited)

The interests of the current directors and their families in the ordinary shares of the Company as at 31 December 2015 were as follows:

	<b>Ordinary shares of 6 3/7 pence at 31 December 2015</b>	Ordinary shares of 5 pence at 31 December 2014
Martyn Ratcliffe	<b>4,117,963</b>	5,294,524
Ivan Martin (appointed to the Board on 1 January 2016)	<b>200,000</b>	–
Simon Baines (appointed to the Board on 1 January 2016)	<b>9,523</b>	12,244
Tom Crawford (appointed to the Board on 1 January 2016)	<b>129,551</b>	166,566
Philip Wood	<b>110,635</b>	142,246
Peter Bertram	<b>35,794</b>	46,022
Vanda Murray	<b>1,555</b>	2,000
Peter Whiting	<b>18,666</b>	24,000

As part of the 2015 return of capital (details of which are provided at page 18) there was a share consolidation in which 7 ordinary shares of 6 3/7 pence each were received for 9 ordinary shares of 5 pence each. The reduction in shareholdings detailed in the table above all arose pursuant to this aforementioned share consolidation.

There have been no changes to directors' shareholdings since 31 December 2015. None of the directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group. Details of directors' interests in shares and options under Microgen long-term incentives are set out in the sections below.

### Directors' other share interests (audited)

The table below shows the other share interests of each current director as at 31 December 2015:

	<b>Share options unvested and subject to performance conditions &amp; continued employment</b>
Martyn Ratcliffe	2,500,000
Ivan Martin (appointed 1 January 2016)	–
Simon Baines (appointed 1 January 2016)	650,000
Tom Crawford (appointed 1 January 2016)	650,000
Philip Wood	650,000
Peter Bertram	–
Vanda Murray	–
Peter Whiting	–

There have been no share options awarded to the Executive Directors since 31 December 2015.

**Further information in respect of share options**

Mr Ratcliffe holds 2,500,000 unvested share options which will lapse following his retirement from the Board on 4 March 2016 following the release of the 2015 results.

Mr Baines, Mr Crawford and Mr Wood are holders of unvested options which have been awarded under two distinct grants as detailed below:

	<b>2013 Share Option Awards</b>	<b>2015 Share Option Awards</b>	<b>Total</b>
Simon Baines (appointed to the Board on 1 January 2016)	500,000	150,000	650,000
Tom Crawford (appointed to the Board on 1 January 2016)	500,000	150,000	650,000
Philip Wood	500,000	150,000	650,000

2013 Share Option Awards

In respect of the 2013 Share Option Awards, 50% of share options do not have performance conditions attached (other than continued employment) and 50% have a Total Shareholder Return (“TSR”) performance condition under which:

- one-third will vest if (i) the Company’s TSR at least matches the performance of the FTSE Fledgling Index over the performance period; and (ii) the Company’s TSR over the performance period is not negative;
- a further third will vest if (i) the Company’s TSR outperforms the FTSE Fledgling Index by at least 25% over the performance period; and (ii) the Company’s TSR over the performance period is at least 10%; and
- a further third will vest if (i) the Company’s TSR outperforms the FTSE Fledgling Index by at least 50% over the performance period; and (ii) the Company’s TSR over the performance period is at least 20%.

The relevant performance period for assessing the Company’s TSR will be 3 years commencing on 20 November 2013. The reference point for the Company’s TSR at the start of the performance period will be 123 pence whilst the closing reference point for the Company’s TSR will be the average closing share price over the 30 calendar days ending on the last day of the performance period. 65% of the share options will be capable of exercise after three years and 35% after five years from the date of grant respectively.

2015 Share Option Awards

In respect of the 2015 Share Option Awards, 100% of share options have a Total Shareholder Return (“TSR”) performance condition under which:

- 50% will vest if (i) the Company’s TSR at least matches the performance of the FTSE Fledgling Index over the performance period; and (ii) the Company’s TSR over the performance period is not negative; and
- a further 50% will vest if (i) the Company’s TSR outperforms the FTSE Fledgling Index by at least 25% over the performance period; and (ii) the Company’s TSR over the performance period is at least 10%.

The relevant performance period for assessing the Company’s TSR will be 3 years commencing on 19 October 2015. The reference points for the Company’s TSR will be the average closing share price over the 30 calendar days ending on the first and last day of the performance period. The share options will be capable of exercise after three years from the date of grant respectively.

# Directors' Remuneration

## Report

### Minimum Shareholding Requirements

Under the rules of the PSP participants are required to hold at least 50% of the shares that they may acquire on exercise of these share options until the day on which his total holding of shares in the Company has a market value equal to his basic salary. For the purposes of this rule, shares sold to discharge an individual's fiscal obligations shall be treated as not having been acquired by him. The current minimum holding according to these rules for each of Mr Baines, Mr Crawford and Mr Wood is as follows:-

	<b>Minimum Shareholding Requirement</b>	<b>Shareholding at 31 December 2015</b>
Simon Baines (appointed to the Board on 1 January 2016)	9,523	9,523
Tom Crawford (appointed to the Board on 1 January 2016)	35,578	129,551
Philip Wood *	32,217	110,635

\*Reduced by 7/9ths from 31 December 2014 following the share consolidation performed during the year (details of which are provided at page 18).

### Advisers

In fulfilling its role the Committee seeks professional advice when considered appropriate to do so. The services of Kepler Associates, an independent adviser on executive remuneration, were made available to the Committee during the year.

Kepler is a founder member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to Remuneration Committees of UK-listed companies, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). Their total fees for the provision of remuneration services to the Committee in 2015 were £1,560. The Committee is satisfied that the advice provided by Kepler is independent.

### Statement of Shareholder voting

At the Annual General Meeting of the Company on 18 May 2015 the results regarding Resolution 2 (to approve the Directors' Remuneration Report for the year ended 31 December 2014) were as follows:

	<b>Total number of votes</b>	<b>% of votes cast</b>
For (including discretionary)	46,212,352	97%
Against	1,660,312	3%
<b>Total votes cast (excluding withheld votes)</b>	<b>47,872,664</b>	<b>100%</b>
Votes withheld	13,570	0.03%
<b>Total votes cast (including withheld votes)</b>	<b>47,886,234</b>	

Note: Abstained votes are not included in the final proxy figures as they are not recognised as a vote in law.

The Remuneration Report and the Remuneration Policy were approved by a duly authorised Committee of the Board of Directors on 3 March 2016 and signed on its behalf by:

### Vanda Murray OBE

Chair of the Remuneration Committee

3 March 2016

*Report to the Members of Microgen plc***Report on the financial statements****Our opinion**

In our opinion:

- Microgen plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

**What we have audited**

The financial statements, included within the Annual Report, comprise:

- the balance sheets as at 31 December 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the statements of cash flow for the year then ended;
- the consolidated statement of changes in shareholders' equity and Company statement of changes in shareholders' equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

**Our audit approach**Overview

Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality: £333,000 which represents 5% of profit before tax, adjusted for certain items. These items include the impairment of freehold property and associated costs of property disposal, acquisition and restructuring costs and a customer settlement.</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We conducted an audit of full year financial information at five reporting units, with specific tests undertaken at a further three reporting units and at group head office. The reporting units where we performed audit work accounted for 79% of Group revenue, 76% of Group profit before tax and all material balance sheet items.</li> </ul>
Area of focus	<ul style="list-style-type: none"> <li>• Risk of fraud in revenue recognition – we considered and tested the recognition of revenue from sales of software licences and related services.</li> <li>• Valuation of goodwill – we evaluated whether goodwill was impaired.</li> </ul>

# Independent Auditors'

## Report to the Members of Microgen plc

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Risk of fraud in revenue recognition</b></p> <p>We focused on the timing of the recognition of revenue and its presentation in the income statement, because this is dependent on the fulfilment of software implementation and licence contract obligations, which can be complex:</p> <ul style="list-style-type: none"> <li>- For revenues recognised on the basis of a defined time period, such as periodic licences, we focused on compliance with the contractual terms applicable and the appropriateness of recognition.</li> <li>- For consultancy revenue and funded development, we focused on ensuring that hours invoiced were consistent with underlying records. We also focused on ensuring that the rates applied were in line with contracted rates and were broadly consistent across the business.</li> <li>- For judgemental deferred revenue, we focused on areas where progress is measured on a percentage completion basis, we focussed on the level of completion determined by management and the judgements around the potential for additional costs. We also focused on any judgemental deferrals by management.</li> <li>- We also focused on non-standard journal entries crediting revenue during the year.</li> </ul> <p>Perpetual licenses made an immaterial contribution to revenue for the year and were therefore not part of our area of focus.</p>	<p>For new software licence revenue, we read the contractual terms for a sample of contracts and assessed whether revenue should be recognised at inception or over a defined licence term. We tested whether the conditions required for initial recognition of licence revenue set out in the accounting policies note had been met. We assessed the reasonableness of the allocation of consideration between different performance obligations within the contract, such as licenced rights to use software, maintenance, support and consultancy services.</p> <p>For consultancy revenue and funded development, we tested a sample of invoices to timesheets and to contracted rates to ensure that time billed is being invoiced in the correct period and is in line with agreed rates. This testing also included assessment of the allocation of revenue between consulting and license revenue by comparison with Microgen's typical hourly rates for consultancy.</p> <p>For ongoing software implementation and consulting contracts, we assessed material deferred revenue balances and contract provisions in light of the stage of completion of the projects at the year end, customer acceptance of the work done, evidence of any ongoing disputes, and the directors' estimates of costs to complete the contract. We believe the annual report appropriately highlights significant judgements made by management.</p> <p>We did not identify any unusual or irregular items from our sample testing of journal entries posted with a credit to revenue accounts and a corresponding non-standard debit entry.</p>
<p><b>Valuation of goodwill</b></p> <p>The Group has goodwill balances from previous acquisitions in respect of both the Aptitude Software (£15.3m) and Financial Systems (£26.5m) cash generating units. The valuation of these balances is inherently judgemental as it is based on the assessed value-in-use of each of these businesses, and these valuations include significant assumptions.</p> <p>The key assumptions are as disclosed in note 8, being the discount rate applied to projected future cash flows, operating profit for each division in 2016, divisional growth rates both over the following four years and into perpetuity after that period, and the cash conversion rate applied to projected future operating profits.</p>	<p>We assessed the reasonableness of the significant assumptions in the goodwill valuation models for each cash generating unit, by reference to both Company specific and wider industry benchmarks. This included assessing the appropriateness of the discount rate applied, reviewing Board-approved forecasts in light of actual performance, and considering the forecast assumptions for future levels of business. Forecasts were consistent with the latest Board-approved models and the discount rate applied is within the range of expected values of 7.6% to 11.1%.</p> <p>We identified that the projected 20% growth rate in Aptitude Software operating profits for the next five years is based upon the beneficial effect of additional investment in the business in order to achieve this growth.</p> <p>We identified that the projected 5% rate of decline in Financial Systems operating profits from 2016-2020 is in line with recent actual performance.</p> <p>We identified that the cash conversion rate of 80% was broadly in line with recent performance.</p> <p>We tested the mathematical accuracy and integrity of the valuation models.</p> <p>We tested the sensitivity of the models to changes in the significant assumptions, and assessed whether such changes are reasonably possible. We varied key inputs to the model such as the discount factor, cash conversion, growth in Group costs, growth rates, and terminal growth and identified there were no inputs that were considered to be sufficiently sensitive to the model.</p> <p>We evaluated the disclosures made in respect of the valuation methodology, significant assumptions and their respective sensitivities.</p>



How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 17 reporting units, comprising the Group's operating subsidiaries, overseas branches and centralised Group functions. The Group is structured such that the significant majority of the business is comprised of two operating businesses, being Aptitude Software and Financial Systems. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units.

Accordingly, of the Group's 17 reporting units, we identified five which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. In addition to the full scope audits, specific audit procedures were performed on three further reporting units and on selected consolidation adjustments made in relation to individually significant balances. These included procedures on the specific financial statement line items shown as revenue, non-underlying items, income tax expense, goodwill, intangible assets, property, plant and equipment, deferred tax, cash and cash equivalents, current tax liabilities and provisions. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole. The reporting units where we performed audit work accounted for 79% of Group revenue, 76% of Group profit before tax and all material balance sheet items.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£333,000 (2014: £315,000).
How we determined it	5% of profit before tax, adjusted for certain items. These items include the impairment of freehold property and associated costs of property disposal, acquisition and restructuring costs and a customer settlement.
Rationale for benchmark applied	Consistent with last year, we have applied this benchmark as a generally accepted auditing practice applicable for a trading group of companies.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £16,000 (2014: £15,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 13, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

# Independent Auditors'

## Report to the Members of Microgen plc

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

### Other required reporting

#### Consistency of other information

##### Companies Act 2006 opinion

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

##### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
<ul style="list-style-type: none"><li>information in the Annual Report is:<ul style="list-style-type: none"><li>materially inconsistent with the information in the audited financial statements; or</li><li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li><li>otherwise misleading.</li></ul></li></ul>	We have no exceptions to report.
<ul style="list-style-type: none"><li>the statement given by the directors on pages 9 and 10, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</li></ul>	We have no exceptions to report.
<ul style="list-style-type: none"><li>the section of the Annual Report on pages 22 and 23, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li></ul>	We have no exceptions to report.

**The directors’ assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
<ul style="list-style-type: none"> <li>the directors’ confirmation on page 9 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the directors’ explanation on page 13 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors’ statement that they have carried out a robust assessment of the principal risks facing the Group and the directors’ statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors’ process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

**Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Directors’ remuneration**

Directors’ remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# **Independent Auditors'**

## *Report to the Members of Microgen plc*

### **Corporate governance statement**

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Maitland (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Uxbridge  
3 March 2016

*Income Statement* for the year ended 31 December 2015

	Note	Year ended 31 Dec 2015			Year ended 31 Dec 2014		
		Before non-underlying items	Non-underlying items	Total	Before non-underlying items	Non-underlying items	Total
		£000	£000	£000	£000	£000	£000
<b>Revenue</b>	1	31,958	–	<b>31,958</b>	29,814	–	29,814
Operating costs	1, 2	(24,369)	(2,316)	<b>(26,685)</b>	(22,435)	(1,218)	(23,653)
<b>Operating profit</b>	2	<u>7,589</u>	<u>(2,316)</u>	<b>5,273</b>	<u>7,379</u>	<u>(1,218)</u>	<u>6,161</u>
Finance income	4	104	–	<b>104</b>	196	–	196
Finance cost	4	(492)	–	<b>(492)</b>	(591)	–	(591)
Net finance cost		<u>(388)</u>	<u>–</u>	<b>(388)</b>	<u>(395)</u>	<u>–</u>	<u>(395)</u>
<b>Profit before income tax</b>		7,201	(2,316)	<b>4,885</b>	6,984	(1,218)	5,766
Income tax expense	5	(1,459)	308	<b>(1,151)</b>	(1,394)	(259)	(1,653)
<b>Profit for the year</b>		<u>5,742</u>	<u>(2,008)</u>	<b>3,734</b>	<u>5,590</u>	<u>(1,477)</u>	<u>4,113</u>
<b>Earnings per share</b>							
Basic	6			<b>6.0p</b>			5.5p
Diluted	6			<b>5.6p</b>			5.1p

The accounting policies and notes on pages 57 to 99 are an integral part of these consolidated financial statements.

# Consolidated Statement

## Of Comprehensive Income *for the year ended 31 December 2015*

	Group Year ended 31 Dec 2015	Group Year ended 31 Dec 2014
Note	£000	£000
<b>Profit for the year</b>	<b>3,734</b>	4,113
<b>Other comprehensive income</b>		
Items that will or may be reclassified to profit or loss:		
Fair value gain/(loss) on hedged financial instruments	22 <b>230</b>	(474)
Currency translation loss	<b>(6)</b>	(139)
<b>Other comprehensive income/(expense) for the year</b>	<b>224</b>	(613)
<b>Total comprehensive income for the year</b>	<b>3,958</b>	3,500

The accounting policies and notes on pages 57 to 99 are an integral part of these consolidated financial statements.

## Sheets at 31 December 2015

	Note	Group As at 31 Dec 2015 £000	Group As at 31 Dec 2014 £000	Company As at 31 Dec 2015 £000	Company As at 31 Dec 2014 £000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	928	4,863	–	–
Goodwill	8	41,774	41,774	–	–
Intangible assets	9	5,934	1,290	–	–
Investments in subsidiaries	11	–	–	41,849	41,739
Deferred income tax assets	12	561	771	–	–
		<b>49,197</b>	48,698	<b>41,849</b>	41,739
<b>Current assets</b>					
Trade and other receivables	13	4,653	3,155	5,332	122
Financial assets – derivative financial instruments	18	11	–	–	–
Current tax assets		–	–	18	22
Cash and cash equivalents	14	18,600	40,896	9,085	28,917
		<b>23,264</b>	44,051	<b>14,435</b>	29,061
Assets classified as held for sale	10	2,350	–	–	–
<b>Total current assets</b>		<b>25,614</b>	44,051	<b>14,435</b>	29,061
<b>Total assets</b>		<b>74,811</b>	92,749	<b>56,284</b>	70,800
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Financial liabilities					
– borrowings	16	(3,000)	(3,000)	–	–
– derivative financial instruments	18	(208)	(427)	–	–
Trade and other payables	15	(20,977)	(18,812)	(12,386)	(7,641)
Current income tax liabilities		(448)	(499)	–	–
Provisions for other liabilities and charges	17	(35)	(15)	–	–
		<b>(24,668)</b>	(22,753)	<b>(12,386)</b>	(7,641)
<b>Net current assets</b>		<b>946</b>	21,298	<b>2,049</b>	21,420
<b>Non-current liabilities</b>					
Financial liabilities – borrowings	16	(10,250)	(13,250)	–	–
Provisions for other liabilities and charges	17	(240)	(261)	–	–
Deferred income tax liabilities	12	(1,082)	–	–	–
		<b>(11,572)</b>	(13,511)	–	–
<b>NET ASSETS</b>		<b>38,571</b>	56,485	<b>43,898</b>	63,159
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	19	3,796	3,730	3,796	3,730
Share premium account	20	4,484	12,049	4,484	12,049
Capital redemption reserve	21	12,372	1,558	12,372	1,558
Other reserves	22	33,998	36,547	17,398	20,177
(Accumulated losses)/retained earnings	23	(16,121)	2,553	5,848	25,645
Foreign currency translation reserve		42	48	–	–
<b>TOTAL EQUITY</b>		<b>38,571</b>	56,485	<b>43,898</b>	63,159

The accounting policies and notes on pages 57 to 99 are an integral part of these consolidated financial statements. The financial statements on pages 51 to 99 were authorised for issue by the Board of Directors on 3 March 2016 and were signed on its behalf by:

**Martyn Ratcliffe**  
Director

**Philip Wood**  
Director

# Consolidated Statement

## Of Changes in Shareholders' Equity

for the year ended 31 December 2015

Group	Note	Attributable to owners of the Parent					Other reserves £000	Total equity £000
		Share capital £000	Share premium account £000	Accumulated losses £000	Foreign currency translation reserve £000	Capital redemption reserve £000		
<b>Balance at 1 January 2014</b>		<b>3,724</b>	<b>12,037</b>	<b>(122)</b>	<b>187</b>	<b>1,558</b>	<b>37,021</b>	<b>54,405</b>
Profit for the year		-	-	4,113	-	-	-	4,113
Cash flow hedges		-	-	-	-	-	-	-
- net fair value gains in the year	22	-	-	-	-	-	(474)	(474)
Exchange rate adjustments		-	-	-	(139)	-	-	(139)
<b>Total comprehensive income for the year</b>		-	-	4,113	(139)	-	(474)	<b>3,500</b>
Shares issued under share option schemes	19-20	6	12	-	-	-	-	18
Share options – value of employee service	23	-	-	830	-	-	-	830
Deferred tax on financial instruments	23	-	-	76	-	-	-	76
Deferred tax on share options	23	-	-	92	-	-	-	92
Corporation tax on share options	23	-	-	23	-	-	-	23
Dividends to equity holders of the company	7	-	-	(2,459)	-	-	-	(2,459)
<b>Total Contributions by and distributions to owners of the company recognised directly in equity</b>		6	12	(1,438)	-	-	-	<b>(1,420)</b>
<b>Balance at 31 December 2014</b>		<b>3,730</b>	<b>12,049</b>	<b>2,553</b>	<b>48</b>	<b>1,558</b>	<b>36,547</b>	<b>56,485</b>
Profit for the year		-	-	3,734	-	-	-	3,734
Cash flow hedges		-	-	-	-	-	-	-
- net fair value losses in the year	22	-	-	-	-	-	230	230
Exchange rate adjustments		-	-	-	(6)	-	-	(6)
<b>Total comprehensive income for the year</b>		-	-	3,734	(6)	-	230	<b>3,958</b>
Shares issued under share option schemes	19-20	66	470	-	-	-	-	536
Issue and redemption of B shares	20-22	-	(8,035)	-	-	10,814	(2,779)	-
Share options – value of employee service	23	-	-	110	-	-	-	110
Return of value to shareholders	23	-	-	(20,145)	-	-	-	(20,145)
Sale of fractional shares	23	-	-	1	-	-	-	1
Expenses relating to Return of Value	23	-	-	(175)	-	-	-	(175)
Deferred tax on financial instruments	23	-	-	(44)	-	-	-	(44)
Deferred tax on share options	23	-	-	(117)	-	-	-	(117)
Corporation tax on share options	23	-	-	51	-	-	-	51
Dividends to equity holders of the company	7	-	-	(2,089)	-	-	-	(2,089)
<b>Total Contributions by and distributions to owners of the company recognised directly in equity</b>		66	(7,565)	(22,408)	-	10,814	(2,779)	<b>(21,872)</b>
<b>Balance at 31 December 2015</b>		<b>3,796</b>	<b>4,484</b>	<b>(16,121)</b>	<b>42</b>	<b>12,372</b>	<b>33,998</b>	<b>38,571</b>

The accounting policies and notes on pages 57 to 99 are an integral part of these consolidated financial statements.



## Of Changes in Shareholders' Equity

for the year ended 31 December 2015

		Attributable to owners of the Company					Total equity £000
		Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	
<b>Company</b>							
<b>Balance at 1 January 2014</b>		<b>3,724</b>	<b>12,037</b>	<b>23,875</b>	<b>1,558</b>	<b>20,177</b>	<b>61,371</b>
Profit for the year	23	–	–	3,399	–	–	3,399
<b>Total comprehensive income for the year</b>		–	–	3,399	–	–	3,399
Shares issued under share option schemes	19-20	6	12	–	–	–	18
Share options – value of employee service	23	–	–	830	–	–	830
Dividends to equity holders of the company	7	–	–	(2,459)	–	–	(2,459)
<b>Total Contributions by and distributions to owners of the company recognised directly in equity</b>		6	12	(1,629)	–	–	(1,611)
<b>Balance at 31 December 2014</b>		<b>3,730</b>	<b>12,049</b>	<b>25,645</b>	<b>1,558</b>	<b>20,177</b>	<b>63,159</b>
Profit for the year	23	–	–	2,501	–	–	2,501
<b>Total comprehensive income for the year</b>		–	–	2,501	–	–	2,501
Shares issued under share option schemes	19-20	66	470	–	–	–	536
Issue and redemption of B shares	20-22	–	(8,035)	–	10,814	(2,779)	–
Share options – value of employee service	23	–	–	110	–	–	110
Return of value to shareholders	23	–	–	(20,145)	–	–	(20,145)
Sale of fractional shares	23	–	–	1	–	–	1
Expenses relating to Return of Value	23	–	–	(175)	–	–	(175)
Dividends to equity holders of the company	7	–	–	(2,089)	–	–	(2,089)
<b>Total Contributions by and distributions to owners of the company recognised directly in equity</b>		66	(7,565)	(22,298)	10,814	(2,779)	(21,762)
<b>Balance at 31 December 2015</b>		<b>3,796</b>	<b>4,484</b>	<b>5,848</b>	<b>12,372</b>	<b>17,398</b>	<b>43,898</b>

The accounting policies and notes on pages 57 to 99 are an integral part of these consolidated financial statements.

# Statements

## Of Cash Flow for the year ended 31 December 2015

	Note	Group As at 31 Dec 2015 £000	Group As at 31 Dec 2014 £000	Company As at 31 Dec 2015 £000	Company As at 31 Dec 2014 £000
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	24	7,495	9,960	(1,508)	(1,968)
Interest paid	4	(492)	(591)	–	–
Income tax paid		(1,189)	(1,454)	4	–
<b>Net cash flows generated from/ (used in) operating activities</b>		<b>5,814</b>	<b>7,915</b>	<b>(1,504)</b>	<b>(1,968)</b>
<b>Cash flows from investing activities</b>					
Dividend received		–	–	4,000	5,000
Sale of property, plant and equipment		13	–	–	–
Purchase of property, plant and equipment	10	(524)	(612)	–	–
Acquisition of subsidiaries, net of cash acquired		(2,863)	(1,230)	–	–
Interest received		108	169	54	123
<b>Net cash (used in)/ generated from investing activities</b>		<b>(3,266)</b>	<b>(1,673)</b>	<b>4,054</b>	<b>5,123</b>
<b>Cash flows from financing activities</b>					
Net proceeds from issuance of ordinary shares	19-20	536	18	536	18
Dividends paid to company's shareholders	7	(2,089)	(2,459)	(2,089)	(2,459)
Repayments of loan		(3,000)	(3,000)	–	–
Return of value to shareholders	23	(20,145)	–	(20,145)	–
Sale of fractional shares	23	1	–	1	–
Expenses relating to Return of Value	23	(175)	–	(175)	–
Amounts lent to group undertakings		–	–	(510)	(1,439)
<b>Net cash (used in) financing activities</b>		<b>(24,872)</b>	<b>(5,441)</b>	<b>(22,382)</b>	<b>(3,880)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(22,324)</b>	<b>801</b>	<b>(19,832)</b>	<b>(725)</b>
Cash, cash equivalents and bank overdrafts at beginning of year	14	40,896	40,200	28,917	29,642
Exchange rate gains/(losses) on cash and cash equivalents		28	(105)	–	–
<b>Cash and cash equivalents at end of year</b>	14	<b>18,600</b>	<b>40,896</b>	<b>9,085</b>	<b>28,917</b>

The accounting policies and notes on pages 57 to 99 are an integral part of these consolidated financial statements.

## Consolidated Financial Statements

### ACCOUNTING POLICIES

#### General Information

The Company is a public limited company incorporated and domiciled in England and Wales.

The Group consolidated financial statements were authorised for issue by the Board of Directors on 3 March 2016.

#### Summary of significant accounting policies

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

#### Basis of preparation

The consolidated financial statements of Microgen plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRSs as adopted by the EU) and IFRS Interpretations Committee (formerly IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of financial assets and financial liabilities (including derivatives) which are recognised at fair value.

The presentation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are disclosed on pages 68 and 69.

#### Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

#### Changes in Accounting policy and disclosures

##### (a) New standards, interpretations and amendments effective from 1 January 2015

There are no new standards, and amendments to standards and interpretations which are effective for annual periods beginning after 1 January 2015, which have been adopted in these financial statements.

##### (b) New standards and interpretations that have not been early adopted.

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Amendments to IAS 27, 'Separate financial statements' on the equity method, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendments to IAS 1, 'Presentation of financial statements' on the disclosure initiative, are part of the IASB initiative to improve presentation and disclosure in financial reports and are effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement.

# **Notes to the**

## *Consolidated Financial Statements*

None of the other new standards, amendments and interpretations, which are effective for periods beginning after 1 January 2015 and which have not been adopted early, are expected to have a significant effect on the consolidated financial statements of the Group.

### **Basis of consolidation**

The financial statements of the Group comprise the financial statements of the Company, Microgen plc and its subsidiary undertakings ("subsidiaries") prepared at the consolidated statement of financial position date.

Subsidiaries are entities controlled by the Group. The Group has control over an entity where the Group is exposed to, or has rights to, variable returns from its involvement within the entity and it has the power over the entity to effect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De- Facto control may arise in circumstances where the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating activities. The results of subsidiaries are consolidated from the date on which control passes to the Group. Results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The costs directly attributable to the acquisition are expensed. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group's two operating businesses derive their revenues from some or all of the following categories of revenue:

- software based activity relating to the Group's intellectual property (comprising software licences, maintenance, support, funded development and related consultancy);
- managed services (comprising principally of application management services); and
- general consultancy services.

The Group recognises revenue from each of these categories as follows:

#### Software based activity

##### *Software licences*

The Group licences its software on an Initial Licence Fee, Perpetual Licence Fee or Annual Licence Fee basis. Licence Fees are first recognised when all of the following criteria are met:

- a contract or customer purchase order is in place;
- licence fee is fixed and determinable;
- evidence of software delivery has been received;
- collection of the debt is likely; and
- no vendor specific obligations relating to the delivered software are outstanding.

Once all of these criteria have been met, all of the Initial or Perpetual Licence Fee is recognised and recognition of the Annual Licence Fee commences. Annual Licence Fees are recognised in the period the services are provided, using a straight-line basis over the term of the licence. In assessing whether the collection of the debt is likely, any deferred payments for Licence Fees are recognised only if they are to be invoiced within 90 days of the period end and such invoice is payable within 30 days of the invoice date.

##### *Software Maintenance*

Fees relating to the maintenance of the Group's software are recognised in the period the services are provided, using a straight-line basis over the term of the maintenance agreement.

##### *Support fees*

Support fees are billed to customers where the Group's software is used by a customer as part of an IT solution and that customer contracts with the Group for support relating to that IT solution. The customer will commit to a minimum monthly, quarterly or annual fee that covers an agreed level of support and then agrees additional fees for support used over and above the minimum commitment. Revenue from support contracts are recognised as the fees are earned.

##### *Funded development*

Where a customer seeks enhancement to the core functionality of a Group product such enhancements will be considered for inclusion in the product road map. Where customers wish to accelerate the product development the Group may undertake funded development work. Revenue for funded development work is recognised on a percentage completed basis after deferring a proportion of the revenue to cover the resolution of any issues arising after the enhancement has been delivered to the customer. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development. Once the enhancement has been accepted by the customer the deferred portion of the revenue is recognised.

##### *IPR consultancy*

The majority of consultancy services which relate to a project which includes the Group's software is contracted for on a time and materials basis and is recognised as such. Occasionally, small amounts of fixed priced or shared risk work is undertaken and this is recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development.

# Notes to the Consolidated Financial Statements

## Managed Services

Where the Group provides application management services to a customer for a third party software product or solution revenue from these services are recognised as the services are performed.

## General Consultancy

The majority of general consultancy services are contracted for on a time and materials basis, with revenue and costs recognised as incurred. Revenue and costs on fixed price and shared risk contracts are recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project.

## **Bid costs**

The Group incurs a number of costs when seeking to secure new contracts with prospects and existing customers. Such costs are expensed as incurred.

## **Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to key decision makers. These decision makers are responsible for allocating resources and assessing performance of the operating segments.

The primary segmental reporting is by operating business being Aptitude Software and Financial Systems.

The operating businesses are allocated central function costs in arriving at operating profit. Group overhead costs are not allocated into the operating businesses as the Board believes that these relate to Group activities as opposed to the operating businesses, these costs are detailed as 'Group' costs in note 1.

## **Non-underlying items**

Non-underlying items are material items of income or expense which are disclosed and described separately in the accounts where it is necessary to do so in order to provide a better understanding of the financial performance of the Group. These items include post acquisition restructuring costs, the amortisation of acquired intangibles, the impact of share based payments and material items that are unusual and infrequent in nature such as asset impairments and customer settlements.

## **Leasing**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

## **Property, plant and equipment**

Property, plant and equipment is shown at historic purchase cost less accumulated depreciation and adjusted for any impairment. Land is not depreciated. Costs include expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on assets so as to write off the cost of property, plant and equipment less their residual value over their estimated useful economic lives by equal annual instalments at the following rates.

Freehold land and buildings	2 per cent
Leasehold improvements	10 – 20 per cent (or the life of the lease if shorter)
Plant and machinery	20 – 50 per cent
Fixtures and fittings	20 per cent

Estimation of the useful economic life includes an assessment of the expected rate of technological developments and the intensity at which the assets are expected to be used.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**Goodwill**

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised on the balance sheet and subject to an annual impairment test. The carrying value of goodwill is cost less accumulated impairment. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combinations in which the goodwill arose. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to the income statement in the period in which they arise.

**Intangible assets***Research and Development ("R&D")*

Research expenditure is expensed to the income statement as incurred. Costs incurred on internal development projects relating to new or substantially improved products are recognised as intangible assets from the date upon which all IAS 38 criteria have been satisfied.

In assessing the IAS 38 criteria it is considered that because of the challenges presented by the complexity of underlying software development issues and the competitive nature of the markets in which we operate, the technical feasibility and future profitability of development has only been satisfied once the product is deployed into a live customer environment and thereafter development expenditure is minimal, therefore all research and development costs have been expensed when incurred.

*Externally acquired software intellectual property rights*

Rights in externally acquired software assets are capitalised at cost and amortised over their estimated useful economic life. Useful economic life is assessed on an individual basis.

*Software IPR and in process R&D*

Software IPR and in process R&D is recognised only on acquisition. The fair value is derived based on time spent on the project at an average daily cost rate. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed on an individual basis. Amortisation is charged on a straight line basis over the estimated useful economic life of the assets.

*Customer relationships*

Customer relationships are recognised only on acquisition. The fair value is derived based on discounted cash flows from estimated recurring revenue streams. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed on an individual basis. Amortisation is charged on a straight line basis over the estimated economic useful life of the assets.

**Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

**Interest costs**

Interest costs are recognised on a time-proportion basis using the effective interest method.

**Impairment of non-financial assets**

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets

## **Notes to the**

# *Consolidated Financial Statements*

that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Any impairment of goodwill is not reversed.

### **Investments**

Investments in subsidiaries are stated in the financial statements of the Company at cost less any provision for impairment.

### **Cash and cash equivalents**

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short term, highly liquid investments with original maturities of three months or less.

### **Share-based payments**

The Group operates share-based compensation plans that are equity settled. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Group income statement over the vesting period with a corresponding adjustment to equity. The expense in relation to options granted on 18 November 2013 (details can be found on page 72) is shown within non-underlying items. The expense for options granted on 21 October 2015 is included within operating costs. No charge is taken to the Company income statement as share options are treated in a similar manner to capital contributions with an addition to investments as all employees are employed by subsidiary companies.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The option pricing model used is the Monte Carlo pricing model.

### **Foreign currency**

Items included within the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in sterling, which is the Group's functional and presentation currency.

Foreign transactions are translated into the functional currency at the exchange rate ruling when the transaction is entered into. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.



On consolidation, the balance sheet of each overseas subsidiary is translated at the closing rate at the date of the balance sheet, and the income and expenses for each income statement are translated at the average exchange rate for the period. Exchange gains and losses arising thereon are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign subsidiaries are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### **Pensions**

The Group operates defined contribution retirement benefit plans in respect of its UK employees. Employee and employer contributions are based on basic earnings for the current year. The schemes are funded by payments to a trustee-administered fund completely independent of the Group's finances. The expense is recognised on a monthly basis as accrued. The Group has no further payment obligations once the contributions have been paid.

### **Current and deferred income tax**

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### **Trade receivables**

Trade receivables are recognised initially at fair value and to the extent that it is deemed necessary are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other operating costs.

### **Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

# **Notes to the**

## *Consolidated Financial Statements*

### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **Provisions for other liabilities and charges**

Provisions are created for vacant or sublet properties when the Group has a legal obligation for future expenditure in relation to onerous leases. The provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### **Borrowings**

Borrowings are initially stated at the amount of the net proceeds after deduction.

### **Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or in respect of interim dividends when they are paid.

### **Dividend income**

Dividend income to the Company received from subsidiary investments is recognised in the Company income statement in the period in which it is paid.

### **Derivative financial instruments and hedging activities**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. At the year-end the Group has designated its derivatives as a hedge of the cost of a highly probable forecasted transaction commitment ('cash flow hedge'). Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are not recognised in equity, rather they are recognised immediately in profit or loss.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IAS 39, any change in assets or liabilities is recognised immediately in the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement.

### **FINANCIAL RISK MANAGEMENT**

The Group's trading, multi-national operations and debt financing expose it to financial risks that include the effects of changes in foreign currency exchange rates, credit risk, liquidity and interest rates.

The Group manages these risks so as to limit any adverse effects on the financial performance of the Group.

#### **(a) Market risk – Foreign exchange**

The Group's major foreign exchange exposures are to the Polish Zloty, South African Rand and US Dollar. Group policy in this area is to eliminate foreign currency cash flows between Group companies once the size and timing of

transactions can be predicted with sufficient certainty. Since April 2007 this has been achieved by hedging Polish Zloty cash outflows 12 months in advance by using forward foreign currency contracts. These have the effect of fixing the sterling amount of Polish Zlotys to be paid in the future. The average remaining life of the forward exchange contracts at 31 December 2015 was 6 months (2014: 6 months).

Given the above policy, the table below approximates the impact on the Group's profit before tax of a 5% exchange rate movement (strengthening of sterling against the specified currency) of the Group's major non sterling trading currencies during the year.

	<b>2015</b>	2014
	<b>£000</b>	£000
Polish Zloty gain	<b>12</b>	46
South African Rand loss	<b>(32)</b>	(34)
US Dollar loss	<b>(205)</b>	(93)
	<b>(225)</b>	(81)

For a 5% weakening of sterling against the relevant currency, there would be a comparable but opposite impact on the profit.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the analysis does not reflect management's proactive monetary measures for exchange risk.

**(b) Market risk – Interest rate**

The Group's major interest rate exposures arise from interest earned on its cash balances.

The Group's policy in this area is to maximise the interest return on cash balances (subject to the constraints imposed by the need to limit credit and liquidity risk as detailed below). In respect of interest payable on borrowings, it is the Group's policy to enter into an interest rate swap so that there is no change in interest payable pursuant to changes in interest rates.

Given the above policies the table below approximates the impact on the Group's profit before tax of a increase of 100 basis points in interest rates during the year.

	<b>2015</b>	2014
	<b>£000</b>	£000
Increase in interest receivable on cash balances	<b>196</b>	383

For a decrease of 100 basis points in interest rates, there would be a comparable but opposite impact on profit.

**(c) Credit risk**

The Group's major credit risk exposures arise from its cash and trade receivable balances. The Group's policies in this area are:

- in respect of cash balances to ensure that deposits are always held across at least 2 financial institutions; and
- in respect of trade receivables, the client or prospective client's credit risk is assessed at the commencement of any new project with payment terms agreed which are appropriate. Regular receivable reports are provided to senior management.

# Notes to the Consolidated Financial Statements

The table below shows the credit rating and balance of the six major counterparties at the balance sheet date:

Counterparty	Current Rating (Moody's)	31 December 2015 Balance £000	31 December 2014 Balance £000
Bank A	A3	12,613	35,320
Bank B	A2	1,566	1,558
Bank C	A1	1,548	1,538
		<b>15,727</b>	<b>38,416</b>
Customer A	Ba3	979	542
Customer B	Aa3	334	347
Customer C	Aa3	295	254
		<b>1,608</b>	<b>1,143</b>

#### (d) Liquidity risk

The Group's major liquidity exposures arise from the need to settle its trade, employee and taxation liabilities as they fall due.

Whilst the Group is comfortably able to finance all of these payments out of operating cash flows, policies are in place to further limit exposure to liquidity risk:

- surplus cash is never deposited for maturities of longer than 110 days; and
- uncommitted facilities will be entered into to support any specific expansion opportunities that arise.

Management monitors forecasts of the Group's liquidity reserve on the basis of expected cash flow. The Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
<b>At 31 December 2015</b>			
Borrowings	3,393	3,296	7,408
Derivative financial instruments	208	–	–
Trade and other payables	20,102	–	–
	<b>23,703</b>	<b>3,296</b>	<b>7,408</b>
<b>At 31 December 2014</b>			
Borrowings	3,490	3,393	10,704
Derivative financial instruments	427	–	–
Trade and other payables	17,649	–	–
	<b>21,566</b>	<b>3,393</b>	<b>10,704</b>

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into the relevant maturity groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
<b>At 31 December 2015</b>			
Forward foreign exchange contracts			
– cash flow hedges			
Outflow	(3,572)	–	–
Inflow	3,565	–	–
Interest rate swap			
– cash flow hedges			
Outflow	(393)	(296)	(158)
Inflow	284	214	114
	<u>(116)</u>	<u>(82)</u>	<u>(44)</u>
	<u><u>(116)</u></u>	<u><u>(82)</u></u>	<u><u>(44)</u></u>
	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
<b>At 31 December 2014</b>			
Forward foreign exchange contracts			
– cash flow hedges			
Outflow	(3,820)	–	–
Inflow	3,597	–	–
Interest rate swap			
– cash flow hedges			
Outflow	(490)	(393)	(454)
Inflow	354	284	328
	<u>(359)</u>	<u>(109)</u>	<u>(126)</u>
	<u><u>(359)</u></u>	<u><u>(109)</u></u>	<u><u>(126)</u></u>

**Fair value estimation**

**Financial instruments not measured at fair value**

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings, however, due to their nature their carrying value approximates their fair value.

# Notes to the Consolidated Financial Statements

## Financial instruments measured at fair value

The fair value hierarchy of the financial instruments measured at fair value is provided below.

	Level 2	
	2015 £'000	2014 £'000
Financial Assets		
Derivative financial assets (designated hedge instruments)	11	–
	<u>11</u>	<u>–</u>
Financial Liabilities		
Derivative financial liabilities (designated hedge instruments)	208	427
	<u>208</u>	<u>427</u>

The derivative financial assets and liabilities have been valued using the market approach and are considered to be Level 2 inputs. There were no changes to the valuation techniques used in the year. There were no transfers between levels during the year.

## Capital risk management

The Group's capital is considered by the Board to be the equity of the Company's shareholders and includes the Group's tangible and intangible fixed assets and cash balances. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

We manage the capital structure based on the economic conditions and the risk characteristics of the Group. The Board reviews the capital structure regularly. No changes were made to our objectives and processes during 2015.

Our general funding policy is to raise long term debt when required to meet the anticipated requirements of the Group.

Microgen Financial Systems Limited, a wholly owned subsidiary of Microgen plc has a bank loan, details of which are given in note 16. Microgen Financial Systems Limited has complied with the externally imposed capital requirements to which it is subject. There are no further capital covenants to which the Group or the Company are subject.

## Critical Accounting Estimates and Judgements

### (a) Impairment of freehold land and buildings

The Group exchanged contracts for the sale of its freehold property for £2,350,000 during the year with completion expected in 2016. The carrying value of the property has been impaired to reflect this valuation and the property is disclosed within 'Assets classified as held for sale'.

### (b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The discount rate applied in the value in use calculation approximates to the Group's Weighted Average Cost of Capital.

The Group annually reviews the goodwill valuation based on various scenarios and each of these scenarios have different growth rate assumptions. The growth rate assumptions are in relation to periods covered by Board approved plans.

Impairments recognised during the year are performed against the carrying value of goodwill. The impairment is recognised in the income statements in the period which it is deemed to arise.

**(c) Impairment of investments**

The Group has also carried out an impairment review on the value of investments held in the Company. Where the investment is held in a company which has an ongoing trade, the value is derived by a value in use calculation of the cash generating units. This is done on a similar basis to that used in the impairment of goodwill calculation as detailed above and is therefore subject to the same estimates by management. Where the investment is held in a company which is no longer trading, the value is derived from the carrying value of the net assets on the balance sheet of that entity.

**(d) Taxation**

The actual tax the Group pays on its profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are then recognised in financial statements. The Group believes the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement.

Deferred tax assets and liabilities require management judgement in determining the amount to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

# Notes to the

## Consolidated Financial Statements

### 1 Segmental Information

#### Business segments

The Board has determined the operating segments based on the reports it receives from management to make strategic decisions.

The segmental analysis is split into the Aptitude Software and Financial Systems operating businesses.

The principal activity of the Group throughout 2014 and 2015 was the provision of IT services and solutions, including software based activity generating the majority of its revenue from software licences, maintenance, support, funded development and related consultancy.

The operating businesses are allocated central function costs in arriving at operating profit/(loss). Group overhead costs are not allocated into the operating businesses as the Board believes that these relate to Group activities as opposed to the operating businesses. Capital expenditure and depreciation detailed within note 1(b) as Group is in respect of assets utilised by both operating businesses and the Group function. Assets and liabilities detailed within note 1(c) as Group are in respect of assets and liabilities held separately from the two operating businesses.

#### (a) Revenue and operating profit by operating business

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
<b>Year ended 31 December 2015</b>				
Revenue	16,730	15,228	–	31,958
Operating costs	(15,066)	(7,981)	–	(23,047)
Operating profit before Group overheads	1,664	7,247	–	8,911
Unallocated Group overheads			(1,322)	(1,322)
Operating profit before non-underlying items				7,589
Non-underlying items	–	(2,208)	(108)	(2,316)
<b>Operating profit/(loss)</b>	<b>1,664</b>	<b>5,039</b>	<b>(1,430)</b>	<b>5,273</b>
Net finance cost				(388)
<b>Profit before tax</b>				<b>4,885</b>
Income tax expense				(1,151)
<b>Profit for the year</b>				<b>3,734</b>
				<hr/> <hr/>
	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
<b>Year ended 31 December 2014</b>				
Revenue	15,395	14,419	–	29,814
Operating costs	(14,193)	(6,969)	–	(21,162)
Operating profit before Group overheads	1,202	7,450	–	8,652
Unallocated Group overheads			(1,273)	(1,273)
Operating profit before non-underlying items				7,379
Non-underlying items	–	(388)	(830)	(1,218)
<b>Operating profit/(loss)</b>	<b>1,202</b>	<b>7,062</b>	<b>(2,103)</b>	<b>6,161</b>
Net finance cost				(395)
<b>Profit before tax</b>				<b>5,766</b>
Income tax expense				(1,653)
<b>Profit for the year</b>				<b>4,113</b>
				<hr/> <hr/>



**1 Segmental Information (continued)**

**(b) Other information**

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
<b>Year ended 31 December 2015</b>				
Capital expenditure				
– property, plant and equipment (note 10)	302	142	80	524
Depreciation (note 10)	(278)	(118)	(201)	(597)

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
<b>Year ended 31 December 2014</b>				
Capital expenditure				
– property, plant and equipment (note 10)	420	45	147	612
Depreciation (note 10)	(439)	(104)	(204)	(747)

**(c) Balance sheet**

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
<b>Year ended 31 December 2015</b>				
Consolidated total assets	19,721	42,646	12,444	74,811
Consolidated total liabilities	(9,482)	(25,896)	(862)	(36,240)
	<u>10,239</u>	<u>16,750</u>	<u>11,582</u>	<u>38,571</u>

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
<b>Year ended 31 December 2014</b>				
Consolidated total assets	19,519	41,411	31,819	92,749
Consolidated total liabilities	(8,175)	(27,426)	(663)	(36,264)
	<u>11,344</u>	<u>13,985</u>	<u>31,156</u>	<u>56,485</u>

Capital expenditure comprises additions to property, plant and equipment and intangible assets, excluding additions resulting from acquisitions through business combinations.

# Notes to the

## Consolidated Financial Statements

### 1 Segmental Information (continued)

#### (d) Geographical segments

The Group has two geographical segments for reporting purposes, the United Kingdom and the Rest of the World.

The following table provides an analysis of the Group's sales by origin and by destination.

	Sales revenue by origin		Sales revenue by destination	
	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
United Kingdom	18,065	18,871	8,918	11,223
Rest of World	13,893	10,943	23,040	18,591
	<b>31,958</b>	29,814	<b>31,958</b>	29,814

The following is an analysis of the carrying amount of non-current assets (excluding deferred tax assets), and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of non-current assets		Capital expenditure	
	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
United Kingdom	47,282	46,520	320	269
Rest of World	1,354	1,407	204	343
	<b>48,636</b>	47,927	<b>524</b>	612

The Company's business is to invest in its subsidiaries and, therefore, it operates in a single segment.

### 2 Operating profit

The following items are included in operating costs:

	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
Employee benefit expense (note 3)	17,809	16,466
Depreciation (note 10)	597	747
Research and development expenditure credit*	(101)	(200)
Other operating costs	6,064	5,422
Non-underlying operating items:		
Impairment of freehold property and associated costs of property disposal	1,585	–
Acquisition and associated restructuring costs	439	221
Amortisation of intangibles	429	–
Share based payments on share options issued in 2013	97	830
South Africa reorganisation costs	–	167
Customer settlement	(234)	–
	<b>26,685</b>	23,653

\* The research and development expenditure credit is calculated at 10% of qualifying research and development expenditure.

**2 Operating profit (continued)**

Profit from operations has been arrived at after charging:

	<b>Year ended 31 Dec 2015</b>	Year ended 31 Dec 2014
	£000	£000
Net foreign exchange losses	<b>399</b>	154
Research, development and support costs - Aptitude Software	<b>4,250</b>	4,275
Research, development and support costs - Financial Systems	<b>2,545</b>	2,178
Depreciation of property, plant and equipment (note 10)	<b>597</b>	747
Operating lease rentals payable:		
– plant and machinery	<b>26</b>	30
– other	<b>795</b>	734
Repairs and maintenance expenditure on property, plant and equipment	<b>244</b>	232
	<b><u>          </u></b>	<b><u>          </u></b>

During the year the group obtained the following services from the Group's auditors at costs as detailed below:

	<b>Year ended 31 Dec 2015</b>	Year ended 31 Dec 2014
	£000	£000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements	<b>103</b>	95
Fees payable to the Company's auditors and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	<b>54</b>	44
– corporation and sales tax services	<b>147</b>	79
– overseas secondment services	<b>108</b>	102
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>412</u></b>	<b><u>320</u></b>

The Company's auditors perform tax return services for the Group's employees in circumstances where the employer has overseas tax filling requirements pursuant to working on overseas projects. These costs are included in the row entitled 'overseas secondment services'. Included within corporation and sales tax services in 2015 are costs in respect of the structuring of the Return of Value and overseas tax advice for the Group.

A description of the work of the Audit Committee is included in the corporate governance statement on pages 22 to 23 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

# Notes to the

## Consolidated Financial Statements

### 3 Employees and directors

	Group Year ended 31 Dec 2015 £000	Group Year ended 31 Dec 2014 £000
<b>Employee benefit expense during the year including contractors</b>		
<b>Excluding non-underlying costs</b>		
Wages and salaries	15,987	14,830
Social security costs	1,326	1,224
Other pension costs (note 28)	483	412
Share based payment cost on share options issued in 2015 (note 27)	13	-
	<u>17,809</u>	<u>16,466</u>
Non-underlying share based payment cost on share options issued in 2013 (note 27)	97	830
	<u>17,906</u>	<u>17,296</u>

Average monthly number of employees (including directors and external contractors) for the Group:

	Group Year ended 31 Dec 2015 Number	Group Year ended 31 Dec 2014 Number
<b>By location:</b>		
United Kingdom	120	116
Rest of World	140	128
	<u>260</u>	<u>244</u>

Headcount at 31 December 2015 was 266 (2014: 257) including contractors.

	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
<b>Key management compensation:</b>		
Short-term employee benefits	2,322	1,969
Post employment benefits	74	62
Share based payment	21	723
	<u>2,417</u>	<u>2,754</u>

Key management compensation for the Group includes the Board of the Company and senior executives within the Group.

	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
<b>Directors</b>		
Aggregate emoluments	597	618
Company contributions to money purchase pension scheme	10	10
	<u>607</u>	<u>628</u>

**3 Employees and directors (continued)**

Average monthly number of directors and senior executives were 14 (2014: 14).

The key management figures given above include the directors of Microgen plc.

The information on directors' remuneration required by the Companies Act and the Listing Rules of the Financial Conduct Authority is contained in the Directors' Remuneration Report on pages 28 to 44.

**4 Net finance cost**

	<b>Year ended 31 Dec 2015 £000</b>	Year ended 31 Dec 2014 £000
<b>Finance income</b>		
Interest on bank deposits	102	195
Interest on Corporation Tax	2	1
	<u>104</u>	<u>196</u>
<b>Finance cost</b>		
Interest payable on bank borrowings	(492)	(591)
	<u>(492)</u>	<u>(591)</u>
<b>Net finance cost</b>	<u><u>(388)</u></u>	<u><u>(395)</u></u>

**5 Income tax expense**

	<b>Year ended 31 Dec 2015 £000</b>	Year ended 31 Dec 2014 £000
Analysis of charge in the year		
Current tax:		
– tax charge on underlying items	(1,416)	(1,388)
– tax credit/(charge) on non-underlying items	117	(110)
– adjustment to tax in respect of prior periods	(17)	(17)
Total current tax	<u>(1,316)</u>	<u>(1,515)</u>
Deferred tax (note 12):		
– tax (charge)/ credit on underlying items	(27)	14
– tax credit/ (charge) on non-underlying items	191	(149)
– adjustment to tax in respect of prior periods	1	(3)
Total deferred tax	<u>165</u>	<u>(138)</u>
<b>Income tax expense</b>	<u><u>(1,151)</u></u>	<u><u>(1,653)</u></u>

UK corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

## Notes to the

# Consolidated Financial Statements

### 5 Income tax expense (continued)

The tax for the year is higher (2014: higher) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
Profit on ordinary activities before tax	4,885	5,766
Tax at the UK corporation tax rate of 20.25% (2014: 21.5%)	(989)	(1,240)
Effects of:		
Adjustment to tax in respect of prior periods	(16)	(20)
Adjustment in respect of foreign tax rates	(51)	(63)
Foreign exchange gains on intercompany balances	(44)	(20)
Tax payable on restructuring of South Africa business	53	(139)
Deferred tax charge on restructuring of South Africa business	-	(228)
Expenses not deductible for tax purposes		
Non-underlying costs not deductible	(318)	(154)
Other	(37)	(3)
Recognition of tax losses	147	214
Change in future tax rates	104	-
Total taxation	<u>(1,151)</u>	<u>(1,653)</u>

The total tax charge of £1,151,000 (2014: £1,653,000) represents 23.6% (2014: 28.7%) of the Group profit before tax of £4,885,000 (2014: £5,766,000).

After adjusting for the impact of non-underlying items, change in tax rates, share based payment charge and prior year tax charges the tax charge for the year of £1,546,000 (£1,568,000) represents 21.46% (2014: 22.45%), which is the tax rate used for calculating the adjusted earnings per share.

**6 Earnings per share**

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has dilutive potential ordinary shares in the form of share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

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

	Year ended 31 Dec 2015			Year ended 31 Dec 2014		
	Earnings £000	Weighted average number of shares (in thousands)	Per-share amount pence	Earnings £000	Weighted average number of shares (in thousands)	Per-share amount pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	3,734	61,777	6.0	4,113	74,554	5.5
Effect of dilutive securities:						
– share options	–	5,073	(0.4)	–	5,954	(0.4)
<b>Diluted EPS</b>	<u>3,734</u>	<u>66,850</u>	<u>5.6</u>	<u>4,113</u>	<u>80,508</u>	<u>5.1</u>

To provide an indication of the underlying operating performance per share the adjusted profit after tax figure shown below excludes non-underlying and other items and has a tax charge using the effective rate of 21.46% (2014: 22.45%).

	Year ended 31 Dec 2015		Year ended 31 Dec 2014	
	Basic EPS pence	Diluted EPS pence	Basic EPS pence	Diluted EPS pence
Earnings per share	6.0	5.6	5.5	5.1
Non-underlying items net of tax	3.3	3.0	1.9	1.8
Foreign exchange losses on intercompany balances	0.1	0.1	–	–
Tax losses recognised	(0.2)	(0.2)	(0.2)	(0.2)
Adjusted earnings per share	<u>9.2</u>	<u>8.5</u>	<u>7.2</u>	<u>6.7</u>

	Year ended 31 Dec 2015 £000	Year ended 31 Dec 2014 £000
Profit on ordinary activities before tax and non-underlying items	7,201	6,984
Tax charge at a rate of 21.46% (2014: 22.45%)	(1,546)	(1,568)
Adjusted profit on ordinary activities after tax	5,655	5,416
Prior years' tax charge	(16)	(20)
Non-underlying items net of tax	(2,008)	(1,477)
Foreign exchange losses on intercompany balances tax charge	(44)	(20)
Recognition of tax losses	147	214
Profit on ordinary activities after tax	<u>3,734</u>	<u>4,113</u>

# Notes to the Consolidated Financial Statements

## 7 Dividends

	2015 pence per share	2014 pence per share	2015 £000	2014 £000
<b>Dividends paid:</b>				
Interim dividend	1.4	1.1	812	820
Final dividend (prior year)	2.2	2.2	1,277	1,639
	<u>3.6</u>	<u>3.3</u>	<u>2,089</u>	<u>2,459</u>
<b>Proposed but not recognised as a liability:</b>				
Final dividend (current year)	2.8	2.2	1,654	1,641
	<u>2.8</u>	<u>2.2</u>	<u>1,654</u>	<u>1,641</u>

The proposed final dividend was approved by the Board on 3 March 2016 but was not included as a liability as at 31 December 2015, in accordance with IAS 10 'Events after the Balance Sheet date'. If approved by the shareholders at the Annual General Meeting this final dividend will be payable on 3 June 2016 to shareholders on the register at the close of business on 29 April 2016.

## 8 Goodwill

	31 Dec 2015 £000	31 Dec 2014 £000
<b>Cost</b>		
At 1 January and 31 December	59,709	59,709
<b>Accumulated impairment</b>		
At 1 January and 31 December	(17,935)	(17,935)
<b>Net book amount</b>	<u>41,774</u>	<u>41,774</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	Aptitude Software £000	Financial Systems £000	Total £000
At 1 January and 31 December 2015	15,347	26,427	41,774
	<u>15,347</u>	<u>26,427</u>	<u>41,774</u>

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

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate present value.



**8 Goodwill (continued)**

The Board-approved plans, prepared for the Financial Systems operating business, project a reduction in operating income of 5% per annum for the four years following the approved 2016 plan. Whilst part of the strategy for Financial Systems is to increase the proportion of the business derived from the Wealth Management sector through both organic growth and add-on acquisitions, no benefit of any potential acquisitions is included in the value in use calculation for Financial Systems.

Following the 2013 strategic review, a decision was made to increase investment significantly in the Aptitude Software operating business to focus the business on the growth of its recurring software-based revenues rather than short-term profitability. The Board approved plans for Aptitude Software project a growth in operating income of 20% per annum for the four years following the approved 2016 plans. The Board considers this to be an achievable growth rate given the increased investment in the business.

The terminal growth rates for the period after 2020 are no greater than 2.25% per annum for either business. The conversion to cash ratio is assumed to be 80% based on the UK corporation tax rate effective from 1 April 2015. The utilisation of deferred tax losses to offset the tax payable has not been considered. The post-tax discount rate applied to the post-tax cash flows of the CGUs was 9.8% (2014: 9.8%).

A proportional movement of 5% in any of the assumptions would not result in an impairment.

**9 Intangible assets**

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
<b>Group</b>			
<b>Cost</b>			
At 1 January 2015	989	2,053	<b>3,042</b>
Acquisitions through business combinations and adjustment to 2014 acquisitions	742	4,331	5,073
Expired	(876)	(876)	(1,752)
<b>At 31 December 2015</b>	<b>855</b>	<b>5,508</b>	<b>6,363</b>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2015	876	876	1,752
Amortisation	84	345	429
Expired	(876)	(876)	(1,752)
<b>At 31 December 2015</b>	<b>84</b>	<b>345</b>	<b>429</b>
<b>Net book amount</b>			
<b>At 31 December 2015</b>	<b>771</b>	<b>5,163</b>	<b>5,934</b>

# Notes to the Consolidated Financial Statements

## 9 Intangible assets (continued)

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
<b>Group</b>			
<b>Net book value</b>			
At 1 January 2014	-	-	-
<b>Group</b>			
<b>Cost</b>			
At 1 January 2014	876	876	1,752
Acquisitions through business combinations	113	1,177	1,290
<b>At 31 December 2014</b>	<b>989</b>	<b>2,053</b>	<b>3,042</b>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2014	876	876	1,752
<b>At 31 December 2014</b>	<b>876</b>	<b>876</b>	<b>1,752</b>
<b>Net book amount</b>			
<b>At 31 December 2014</b>	<b>113</b>	<b>1,177</b>	<b>1,290</b>

The Company held no intangible assets during the year (2014: nil).

The externally acquired software IPR and in process R&D relates to expected future benefits of acquired software and development projects in progress at the date of acquisition. As at 31 December 2015 no internal research and development costs have been capitalised. The customer relationships relate to expected benefits obtained from recurring level of business from customers obtained as a result of acquisitions. The useful lives of the intangible assets acquired during the year has been determined as 6 years in respect of software IPR and in process R&D and 10 years in respect of customer relationships.

The amortisation charge in the year is shown in non-underlying costs.

10 Property, plant and equipment

	Freehold land and buildings £000	Leasehold improve- ments £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
<b>Group</b>					
<b>Cost</b>					
At 1 January 2015	4,579	854	3,593	189	9,215
Additions	–	–	518	6	524
Acquired with acquisitions	–	–	47	8	55
Disposals	–	–	(13)	(17)	(30)
Assets classified as held for sale	(3,047)	(385)	–	–	(3,432)
Impairment	(1,532)	–	–	–	(1,532)
Exchange movements	–	(4)	(96)	(5)	(105)
<b>At 31 December 2015</b>	<b>–</b>	<b>465</b>	<b>4,049</b>	<b>181</b>	<b>4,695</b>
<b>Accumulated depreciation</b>					
At 1 January 2015	635	756	2,802	159	4,352
Charge for the year (note 2)	62	67	448	20	597
Disposals	–	–	–	(17)	(17)
Assets classified as held for sale	(697)	(385)	–	–	(1,082)
Exchange movements	–	(2)	(77)	(4)	(83)
<b>At 31 December 2015</b>	<b>–</b>	<b>436</b>	<b>3,173</b>	<b>158</b>	<b>3,767</b>
<b>Net book amount</b>					
<b>At 31 December 2015</b>	<b>–</b>	<b>29</b>	<b>876</b>	<b>23</b>	<b>928</b>

## Notes to the

# Consolidated Financial Statements

### 10 Property, plant and equipment (continued)

	Freehold land and buildings £000	Leasehold improve- ments £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
<b>Group</b>					
<b>Net book value</b>					
<b>At 1 January 2014</b>	<b>4,007</b>	<b>167</b>	<b>809</b>	<b>39</b>	<b>5,022</b>
<b>Cost</b>					
At 1 January 2014	4,579	853	3,183	180	8,795
Additions	–	8	592	12	612
Acquired with acquisitions	–	–	12	–	12
Disposals	–	–	(11)	–	(11)
Exchange movements	–	(7)	(183)	(3)	(193)
<b>At 31 December 2014</b>	<b>4,579</b>	<b>854</b>	<b>3,593</b>	<b>189</b>	<b>9,215</b>
<b>Accumulated depreciation</b>					
At 1 January 2014	572	686	2,374	141	3,773
Charge for the year (note 2)	63	74	589	21	747
Disposals	–	–	(11)	–	(11)
Exchange movements	–	(4)	(150)	(3)	(157)
<b>At 31 December 2014</b>	<b>635</b>	<b>756</b>	<b>2,802</b>	<b>159</b>	<b>4,352</b>
<b>Net book amount</b>					
<b>At 31 December 2014</b>	<b>3,944</b>	<b>98</b>	<b>791</b>	<b>30</b>	<b>4,863</b>

The Company held no property, plant and equipment in the year (2014: nil).

#### Assets classified as held for sale

	2015 £000	2014 £000
<b>Group</b>		
<b>Freehold property held for sale</b>	<b>2,350</b>	<b>–</b>

The Group exchanged contracts in the year for the sale of its freehold property and associated improvements in Fleet for £2,350,000 at which time the net book value of the assets were £3,882,000 resulting in an impairment of £1,532,000. The completion of the sale is expected in 2016. The fixed assets were impaired accordingly before being transferred to 'Assets classified as held for sale'.

**11 Investments in subsidiaries**

The Group did not hold any investments in 2015 (2014: nil).

	<b>2015</b>	2014
	<b>£000</b>	£000
<b>Company</b>		
<b>Cost</b>		
At 1 January	<b>54,894</b>	54,064
Share based payments – share options granted to employees of subsidiaries	<b>110</b>	830
<b>At 31 December</b>	<b>55,004</b>	54,894
<b>Impairment</b>		
<b>At 31 December</b>	<b>13,155</b>	13,155
<b>Net book amount</b>		
<b>At 31 December</b>	<b>41,849</b>	41,739

The recoverable amounts of the investments are determined by calculating a value in use for the appropriate subsidiary investment. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the subsidiary investments.

Where the investment is held in a company which is no longer trading, the value is derived from the carrying value of the net assets on the balance sheet of that entity.

The Directors consider the value of the investments to be supported by their underlying assets.

<b>Subsidiaries</b>	<b>Country</b>	<b>Activity</b>
Aptitude Software Limited	England & Wales	Software and Services
Microgen (Channel Islands) Limited *	Guernsey	Software and Services
Microgen Wealth Management Systems Limited *	England & Wales	Software and Services
Microgen Banking Systems Limited *	England & Wales	Software and Services
Microgen Solutions Limited *	England & Wales	Software and Services
Microgen Asset Management Solutions Limited *	England & Wales	Software and Services
Aptitude Software Inc.*	USA	Software and Services
Microgen (South Africa) Pty Limited *	South Africa	Software and Services
Microgen Poland Sp. Z.o.o.*	Poland	Development
Microgen Management Services Limited	England & Wales	Employment and Group Services
Microgen Financial Systems Limited	England & Wales	Software and Services
Microgen (Jersey) Limited*	Jersey	Software and Services
Microgen (Alchemy) Limited (formerly Finalsys Limited) *	Jersey	Software and Services
Aptitude Software (Canada) Limited *	Canada	Employment and Group Services
Microgen (Jobstream) Limited (formerly Jobstream Group Limited) *	England & Wales	Software and Services
Microgen (Jobstream UK) Limited (formerly Jobstream UK Limited) *	England & Wales	Dormant
Microgen (Jobstream Systems) Limited (formerly Jobstream Systems Limited) *	England & Wales	Dormant

\* Indirectly held by Microgen plc

The Company owns 100% of the ordinary share capital and share premium in the above subsidiaries.

During 2015 Microgen Wealth Management Systems Limited, a subsidiary of Microgen plc, acquired the share capital of Finalsys Limited (renamed Microgen (Alchemy) Limited) and Jobstream Group Limited (renamed Microgen (Jobstream) Limited).

# Notes to the

## Consolidated Financial Statements

### 12 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2014: 20%) for balances expected to be recovered/settled within 12 months and 18% in all other instances.

#### Deferred tax

	2015 £'000	2014 £'000
<b>Group</b>		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	263	418
– Deferred tax asset to be recovered within 12 months	298	353
	<u>561</u>	<u>771</u>
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	(943)	–
– Deferred tax liabilities to be settled within 12 months	(139)	–
	<u>(1,082)</u>	<u>–</u>
<b>Deferred tax (liability)/ asset</b>	<u>(521)</u>	<u>771</u>

#### Net deferred tax (liability)/ asset

	2015 £'000	2014 £'000
At 1 January	771	752
(Charge)/credit to income statement for the year	(24)	10
(Charge)/credit to equity	(161)	168
Exchange differences	(25)	(10)
On acquisition of subsidiaries	(1,273)	–
Non-underlying deferred tax credit/(charge) to the income statement for the year	191	(149)
<b>At 31 December</b>	<u>(521)</u>	<u>771</u>

#### Deferred tax asset

	Accelerated capital allowances £000	Short term timing differences £000	Share-based payments £000	Taxable trading losses £000	Total £000
<b>Group</b>					
At 1 January 2014	214	303	138	97	752
(Charge)/credit to income statement for the year	(59)	10	–	59	10
Credit to equity (note 23)	–	76	92	–	168
Exchange differences	–	(10)	–	–	(10)
Non-underlying deferred tax (charge)/credit to the income statement for the year	–	(210)	61	–	(149)
<b>At 31 December 2014</b>	<u>155</u>	<u>169</u>	<u>291</u>	<u>156</u>	<u>771</u>
(Charge)/credit to income statement for the year	(49)	64	1	(40)	(24)
(Charge)/credit to equity (note 23)	–	(44)	(117)	–	(161)
Exchange differences	–	(25)	–	–	(25)
<b>At 31 December 2015</b>	<u>106</u>	<u>164</u>	<u>175</u>	<u>116</u>	<u>561</u>

**12 Deferred tax (continued)**

Deferred tax assets have been recognised in respect of taxable losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

At the balance sheet date, the Group has unused tax losses of £5,058,000 (2014: £5,978,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £575,000 (2014: £777,000) of such losses which is the maximum the Group anticipates being able to utilise in the year ending 31 December 2016. No deferred asset has been recognised in respect of the remaining £4,483,000 (2014: £5,201,000) due to the unpredictability of future profit streams.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

**Deferred tax liability**

	Arising on acquisition of intangible fixed assets £000	Total £000
<b>Group</b>		
<b>At 1 January and 31 December 2014</b>	–	–
On acquisition of subsidiaries	(1,273)	(1,273)
Deferred tax credit to the income statement for the year	191	191
<b>At 31 December 2015</b>	<b>(1,082)</b>	<b>(1,082)</b>

**13 Trade and other receivables**

	Group 31 Dec 2015 £000	Group 31 Dec 2014 £000	Company 31 Dec 2015 £000	Company 31 Dec 2014 £000
Trade receivables	3,662	2,214	–	–
Less: provision for impairment of receivables	(5)	(7)	–	–
Trade receivables – net	3,657	2,207	–	–
Amounts owed by group undertakings	–	–	5,216	22
Other receivables	224	91	23	13
Prepayments and accrued income	772	857	93	87
	<b>4,653</b>	<b>3,155</b>	<b>5,332</b>	<b>122</b>

Amounts due from group undertakings are unsecured and repayable on demand.

An impairment provision for all past due trade receivables is maintained as the Group's experience is that a proportion of all such receivables may not ultimately be collectable.

Within the trade receivables balance of £3,662,000 (2014: £2,214,000) there are balances totalling £978,000 (2014: £552,000) which, at 31 December 2015, were overdue for payment. Of this balance £718,000 (2014: £544,000) has been collected at 2 March 2016 (2014: 24 February 2015).

## Notes to the

# Consolidated Financial Statements

### 13 Trade and other receivables (continued)

The ageing of the trade receivables is as follows:

	<b>Trade receivables</b>	
	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000
<b>Not past due</b>	<b>2,684</b>	1,661
<b>Past due</b>		
Less than one month overdue	<b>923</b>	505
One to two months overdue	<b>20</b>	39
Two to three months overdue	<b>33</b>	6
More than three months overdue	<b>2</b>	3
At 31 December	<b><u>3,662</u></b>	<u>2,214</u>

The Company had no trade receivables in either year.

Trade and other receivables are denominated in the following currencies:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>31 Dec 2015</b>	31 Dec 2014	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000	<b>£000</b>	£000
Sterling	<b>2,598</b>	2,335	<b>5,332</b>	122
United States Dollars	<b>1,297</b>	432	-	-
Other	<b>758</b>	388	-	-
	<b><u>4,653</u></b>	<u>3,155</u>	<b><u>5,332</u></b>	<u>122</u>

Movements on the provision for impairment of trade receivables are as follows:

	<b>Group</b>	Group
	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000
At 1 January	<b>7</b>	60
Receivables written off as uncollectable	<b>(2)</b>	(8)
Credited to income statement	<b>-</b>	(45)
At 31 December	<b><u>5</u></b>	<u>7</u>

Creation and reversals of the provision for impaired trade receivables have been included in the income statement under other operating costs. Non-trade receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each receivable class mentioned above. No collateral is held as security against these assets.

The Company does not have any provisions for impairments of trade receivables (2014: nil).



**14 Cash and cash equivalents**

Cash and cash equivalents are denominated in the following currencies:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>31 Dec 2015</b>	31 Dec 2014	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000	<b>£000</b>	£000
Sterling	<b>16,756</b>	39,517	<b>9,085</b>	28,917
South African Rand	<b>398</b>	435	–	–
United States Dollar	<b>1,143</b>	744	–	–
Polish Zloty	<b>301</b>	200	–	–
Canadian Dollar	<b>2</b>	–	–	–
<b>Cash at bank and in hand</b>	<b>18,600</b>	40,896	<b>9,085</b>	28,917

The effective interest rate on short term deposits was 0.5% (2014: 0.5%).

**15 Trade and other payables**

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>31 Dec 2015</b>	31 Dec 2014	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000	<b>£000</b>	£000
Trade payables	<b>715</b>	406	<b>64</b>	13
Amounts owed to group undertakings	–	–	<b>12,259</b>	7,575
Other tax and social security payable	<b>875</b>	1,163	–	–
Other payables	<b>60</b>	171	<b>25</b>	25
Accruals	<b>2,336</b>	1,866	<b>38</b>	28
Deferred income	<b>16,991</b>	15,206	–	–
	<b>20,977</b>	18,812	<b>12,386</b>	7,641

The amounts owed to group undertakings are unsecured, interest free and repayable upon demand.

**16 Financial liabilities**

	<b>Group</b>	Group
	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000
Bank loan	<b>13,250</b>	16,250
The borrowings are repayable as follows:		
Within one year	<b>3,000</b>	3,000
In the second year	<b>3,000</b>	3,000
In the third to fifth years inclusive	<b>7,250</b>	10,250
	<b>13,250</b>	16,250
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(3,000)</b>	(3,000)
Amount due for settlement after 12 months	<b>10,250</b>	13,250

Microgen Financial Systems Limited, a wholly owned subsidiary of Microgen plc, entered into a loan agreement with Royal Bank of Scotland plc in 2013 for £20,000,000 of which £13,250,000 is outstanding at 31 December 2015. The loan is secured solely against the assets of the Financial Systems operating business of the Group. Operating covenants are limited to the performance of the Financial Systems business only and are based on the net debt leverage, interest cover and a minimum cash balance of £3,000,000 held within the Financial Systems business. In the event of a default of the loan, Microgen plc has the option but not the obligation, to remedy.

# Notes to the Consolidated Financial Statements

## 16 Financial liabilities (continued)

The loan is repayable over five years from October 2013 with an annual capital repayment of £3,000,000 and a final repayment of £5,000,000 on the fifth anniversary of the loan agreement. The loan is denominated in Pound Sterling and carries interest at LIBOR plus 1.75%. The Group entered into an interest swap on 28 October 2013, effectively fixing the interest rate at 3.24% over a five year period.

The Company has no borrowings at 31 December 2015 (2014: nil).

## 17 Provisions for other liabilities and charges

	Provisions	
	31 Dec 2015 £000	31 Dec 2014 £000
<b>Group</b>		
At 1 January	276	302
Credited to income statement	(2)	–
Utilised	(2)	–
Arising on acquisition	10	–
Foreign exchange movement	(7)	(26)
<b>At 31 December</b>	<b>275</b>	<b>276</b>

Provisions have been analysed between current and non-current as follows:

	Provisions	
	31 Dec 2015 £000	31 Dec 2014 £000
Current	35	15
Non-current	240	261
	<b>275</b>	<b>276</b>

£245,000 of the total provision at 31 December 2015 of £275,000 relates to the cost of dilapidations in respect of its occupied leasehold premises.

Of the non-current provision, £240,000 is expected to unwind within 2 to 5 years (2014: £261,000).

## 18 Financial instruments

At the balance sheet date, the total notional amount of outstanding forward foreign exchange and the interest rate swap are:

	31 Dec 2015		31 Dec 2014	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps – cash flow hedges	–	116	–	179
Forward foreign exchange contracts – cash flow hedges	11	92	–	248
	<b>11</b>	<b>208</b>	–	<b>427</b>

### Total derivatives designated as hedging instruments

The company has no derivative financial instruments (2014: nil).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

**18 Financial instruments (continued)**

**Currency derivatives**

The forward foreign exchange contracts are used to hedge the Group's forecasted Polish Zloty denominated costs over the next 12 months. The notional principal amounts outstanding at the balance sheet date are as follows:

	<b>31 Dec 2015</b>	31 Dec 2014
	<b>£000</b>	£000
Forward foreign exchange contracts – Polish Zloty	<b>3,572</b>	3,820

The forward exchange contracts mature evenly across the year on a monthly basis.

At 31 December 2015, the fair value of the Group's currency derivatives is estimated to be a liability of approximately £81,000 (2014: liability £248,000), comprising £11,000 assets (2014: £ nil) and £92,000 liabilities (2014: £248,000), based on quoted market values.

The forward contracts are designated as effective as cash flow hedges in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value has been recognised in other comprehensive income and presented in the hedging reserve in equity. These will be transferred to the income statement over the next 12 months (2014: 12 months).

A loss of £408,000 (2014: loss £127,000) has been transferred to the income statement in respect of contracts which have matured during the year.

**Fair Value interest rate swaps**

The Group enters into floating-to-fixed interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at floating rates.

The notional principal amounts of the outstanding interest rate swap contracts designated as hedging instruments in fair value interest rate debt at 31 December 2015 amounts to £13,250,000 (2014: £16,250,000).

The fair value liability recognised in the consolidated statement of comprehensive income is £116,000 (2014: £179,000). Additional disclosures are set out in the accounting policies relating to risk management.

**Fair values of non-derivative financial assets and financial liabilities**

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year-end exchange rates.

		<b>31 Dec 2015</b>		31 Dec 2014	
	Note	<b>Book value</b>	<b>Fair value</b>	Book value	Fair value
		<b>£000</b>	<b>£000</b>	£000	£000
<b>Group</b>					
Cash at bank and in hand	14	<b>18,600</b>	<b>18,600</b>	40,896	40,896
<b>Company</b>					
Cash at bank and in hand	14	<b>9,085</b>	<b>9,085</b>	28,917	28,917

# Notes to the Consolidated Financial Statements

## 18 Financial instruments (continued)

The carrying amount of borrowings, short term payables and receivables is equal to their fair value.

Neither the Group or Company defaulted on any loans during the year. In addition the Group or Company did not breach the terms of any loan agreements during the year.

### Credit quality of financial assets

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to the customer type.

<b>Group</b>	<b>2015</b>	2014
	<b>£000</b>	£000
<b>Trade receivables</b>		
Banks and financial institutions	<b>2,046</b>	1,249
Other corporates	<b>638</b>	412
Total current trade receivables	<b>2,684</b>	1,661
Overdue trade receivables	<b>978</b>	553
Total trade receivables	<b>3,662</b>	2,214
	<b>Current</b>	
	<b>Rating</b>	
	<b>(Moody's)</b>	
<b>Cash at bank and short-term bank deposits</b>	<b>2015</b>	2014
	<b>£000</b>	£000
	Aa2	–
	Aa3	1,100
	A1	1,539
	A2	2,502
	A3	–
	Baa1	35,320
	Baa2	435
	<b>18,600</b>	<b>39,796</b>

None of the financial assets that are fully performing have been renegotiated in the last year.

## 19 Share capital

<b>Group and company</b>	<b>31 Dec 2015</b>		<b>31 Dec 2014</b>	
	<b>Number</b>	<b>£000</b>	Number	£000
<b>Ordinary shares of 6 3/7p each (2014: 5p each)</b>				
<b>Issued and fully paid:</b>				
At 1 January	<b>74,610,669</b>	<b>3,730</b>	74,498,502	3,724
Issued under share option schemes	<b>1,030,001</b>	<b>66</b>	112,167	6
Share reorganisation	<b>(16,580,149)</b>	<b>–</b>	–	–
<b>At 31 December 2015</b>	<b>59,060,521</b>	<b>3,796</b>	<b>74,610,669</b>	<b>3,730</b>
	<b>31 Dec 2015</b>		<b>31 Dec 2014</b>	
	<b>Number</b>	<b>£000</b>	Number	£000
<b>'B' shares at 27 pence each</b>				
<b>Issued and fully paid</b>				
Opening balance as at 1 January	–	–	–	–
Issue of 'B' shares	<b>40,052,751</b>	<b>10,814</b>	–	–
Redemption of 'B' shares	<b>(40,052,751)</b>	<b>(10,814)</b>	–	–
<b>At 31 December 2015</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**19 Share capital (continued)**

On 19 March 2015, 40,052,751 'B' shares were issued at 27 pence each, resulting in a total of £10,814,000 being credited to the 'B' share capital account. On 1 April 2015, 40,052,751 shares were redeemed at 27 pence each and an amount of £10,814,000 was deducted from the 'B' share capital account.

	31 Dec 2015		31 Dec 2014	
	Number	£000	Number	£000
<b>'C' shares at 0.000001 pence each</b>				
<b>Issued and fully paid</b>				
Opening balance as at 1 January	-	-	-	-
Issue of 'C' shares	<b>34,557,918</b>	-	-	-
Cancellation of 'C' Shares	<b>(34,557,918)</b>	-	-	-
<b>At 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

On 19 March 2015, 34,557,918 'C' shares were issued at 0.000001 pence each, resulting in a total of £35 being credited to the 'C' share capital account. On 19 March 2015, a dividend of 27 pence per 'C' share was declared and was paid on 1 April 2015. The 'C' shares were subsequently reclassified as Deferred Shares and repurchased by the Company for an aggregate consideration of £35 and then subsequently cancelled and an amount of £35 was deducted from the 'C' share capital account.

**Return of Value to Shareholders**

During the year ended 31 December 2015 the Group announced a Return of Value to shareholders of 27 pence per ordinary share amounting to £20 million in cash, by way of a 'B'/'C' share scheme, which gave shareholders a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 18 March 2015. The Return of Value was accompanied by a 7 for 9 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the 'B' and 'C' shares.

The number of ordinary shares for which Microgen employees hold options and the period to which the options are exercisable are as follows (note 27):

Period	Year of grant	Exercise price	2015 Number	2014 Number
Between 22 September 2008 and 22 September 2015	2005	70.50p	-	30,000
Between 15 June 2009 and 15 June 2016	2006	59.33p	<b>9,999</b>	9,999
Between 6 August 2010 and 6 August 2017	2007	5p	<b>16,670</b>	16,670
Between 6 August 2010 and 6 August 2017	2007	46.83p	<b>21,668</b>	43,336
Between 28 February 2011 and 28 February 2018	2008	48.17p	<b>33,331</b>	33,331
Between 2 May 2011 and 2 May 2018	2008	52.33p	-	1,000,000
Between 2 December 2011 and 2 December 2018	2008	43.50p	<b>33,332</b>	41,665
Between 2 December 2011 and 2 December 2018	2008	5p	<b>18,334</b>	18,334
Between 3 March 2014 and 3 March 2021	2011	140p	<b>17,205</b>	60,218
Between 20 September 2014 and 20 September 2021	2011	5p	-	10,000
Between 18 November 2016 and 18 November 2023	2013	5p	<b>4,222,500</b>	4,417,500
Between 18 November 2018 and 18 November 2023	2013	5p	<b>927,500</b>	1,032,500
Between 21 October 2018 and 21 October 2025	2015	6 3/7p	<b>715,000</b>	-
			<b>6,015,539</b>	<b>6,713,553</b>

# Notes to the Consolidated Financial Statements

## 20 Share premium account

	2015 £000	2014 £000
<b>Group and Company</b>		
At 1 January	12,049	12,037
Premium on shares issued during the year under the share option schemes	470	12
Issue and redemption of 'B' shares	(8,035)	–
<b>At 31 December</b>	<b>4,484</b>	<b>12,049</b>

## 21 Capital Redemption Reserve

	2015 £000	2014 £000
<b>Group and Company</b>		
At 1 January	1,558	1,558
On issue and redemption of 'B' shares	10,814	–
<b>At 31 December</b>	<b>12,372</b>	<b>1,558</b>

## 22 Other reserves

	Derivatives hedge reserve £000	Merger reserve £000	Total £000
<b>Group</b>			
At 1 January 2014	47	36,974	37,021
Cash flow hedges			
– net fair value losses in the year	(474)	–	(474)
At 31 December 2014	(427)	36,974	36,547
On issue and redemption of 'B' shares	–	(2,779)	(2,779)
Cash flow hedges			
– net fair value gains in the year	230	–	230
<b>At 31 December 2015</b>	<b>(197)</b>	<b>34,195</b>	<b>33,998</b>
		<b>Merger reserve £000</b>	<b>Total £000</b>
<b>Company</b>			
At 1 January 2014		20,177	20,177
At 31 December 2014		20,177	20,177
On issue and redemption of 'B' shares		(2,779)	(2,779)
<b>At 31 December 2015</b>		<b>17,398</b>	<b>17,398</b>

**23 (Accumulated losses)/retained earnings**

	Group £000	Company £000
At 1 January 2014	(122)	23,875
Profit for the year	4,113	3,399
Share options – value of employee service (note 27)	830	830
Deferred tax on financial instruments (note 12)	76	–
Deferred tax on share options (note 12)	92	–
Corporation tax on share options	23	–
Dividends paid (note 7)	(2,459)	(2,459)
At 31 December 2014	<u>2,553</u>	<u>25,645</u>
Profit for the year	3,734	2,501
Share options – value of employee service (note 27)	110	110
Return of value to shareholders	(20,145)	(20,145)
Sale of fractional shares	1	1
Expenses relating to Return of Value	(175)	(175)
Deferred tax on financial instruments (note 12)	(44)	–
Deferred tax on share options (note 12)	(117)	–
Corporation tax on share options	51	–
Dividends paid (note 7)	(2,089)	(2,089)
<b>At 31 December 2015</b>	<b><u>(16,121)</u></b>	<b><u>5,848</u></b>

The profit for the financial year dealt with in the financial statements of the Company was £2,501,000 (2014: £3,399,000). As permitted by Section 408 of the Companies Act 2006, no separate income statement or statement of comprehensive income is presented in respect of the Company.

**24 Cash flows from operating activities**

Reconciliation of profit before tax to net cash generated from/(used in) operations:

	Group Year ended 31 Dec 2015 £000	Group Year ended 31 Dec 2014 £000	Company Year ended 31 Dec 2015 £000	Company Year ended 31 Dec 2014 £000
<b>Profit before tax</b>	<b>4,885</b>	5,766	<b>2,501</b>	3,399
Adjustments for:				
Depreciation	597	747	–	–
Amortisation	429	–	–	–
Impairment of fixed assets	1,532	–	–	–
Research and development credit	(101)	(200)	–	–
Share-based payment expense	110	830	–	–
Finance income	(104)	(196)	(54)	(145)
Finance costs	492	591	–	–
Dividend income	–	–	(4,000)	(5,000)
<b>Changes in working capital excluding the effects of acquisition:</b>				
(Increase)/decrease in receivables	(1,162)	1,937	(16)	34
Increase/(decrease) in payables	828	511	61	(256)
Decrease in provisions	(11)	(26)	–	–
<b>Cash generated from/(used in) operations</b>	<b><u>7,495</u></b>	<u>9,960</u>	<b><u>(1,508)</u></b>	<u>(1,968)</u>

## Notes to the

# Consolidated Financial Statements

### 25 Acquisitions

#### Finalsys Limited

In June 2015 the Group acquired Finalsys Limited ("Finalsys") (subsequently re-named Microgen (Alchemy) Limited), a Jersey-based provider of wealth management software for the offshore finance industry. The consideration for the acquisition of Finalsys was £267,000, of which £83,000 has been paid and the balance been deferred until 2016.

The net assets acquired in the transactions and the intangibles arising, are as follows:

	Carrying values pre acquisition £000	Fair value adjustments £000	Provisional fair value £000
<b>Net assets acquired</b>			
Intangible fixed assets	–	337	337
Deferred tax liability	–	(67)	(67)
Property, plant and equipment	12	–	12
Trade and other receivables	124	–	124
Cash and cash equivalents	59	–	59
Trade and other payables	(35)	–	(35)
Deferred income	(163)	–	(163)
	<u>(3)</u>	<u>270</u>	<u>267</u>
Goodwill			–
Total consideration			<u>267</u>
<b>Satisfied by</b>			
Cash paid on completion			83
Cash paid following year end			184
			<u>267</u>

The intangible assets acquired as part of the acquisition of Finalsys can be analysed as follows:

	Provisional fair value £000
Software IPR and in process R&D	19
Customer relationships	318
	<u>337</u>



**25 Acquisitions (continued)**

**Jobstream Group Limited**

In July 2015 the Group acquired the entire share capital of Jobstream Group Limited (“Jobstream”) (subsequently renamed Microgen (Jobstream) Limited), a provider of wealth management software for the offshore finance industry. The consideration paid in respect of the issued share capital of Jobstream was £3,428,000.

The net assets acquired in the transactions and the intangibles arising, are as follows:

	<b>Carrying values pre acquisition £000</b>	<b>Fair value adjustments £000</b>	<b>Provisional fair value £000</b>
<b>Net assets acquired</b>			
Intangible fixed assets	–	4,414	4,414
Deferred tax liability	–	(883)	(883)
Property, plant and equipment	43	–	43
Trade and other receivables	234	–	234
Cash and cash equivalents	637	–	637
Trade and other payables	(299)	–	(299)
Deferred income	(718)	–	(718)
	<u>(103)</u>	<u>3,531</u>	<u>3,428</u>
Goodwill			–
Total consideration			<u><u>3,428</u></u>
<b>Satisfied by</b>			
Cash paid on completion			3,150
Deferred consideration paid prior to year end			278
			<u><u>3,428</u></u>

The intangible assets acquired as part of the acquisition of Jobstream can be analysed as follows:

	<b>Provisional fair value £000</b>
Software IPR and in process R&D	656
Customer relationships	3,758
	<u><u>4,414</u></u>

## Notes to the

# Consolidated Financial Statements

### 25 Acquisitions (continued)

#### Unity Software Limited

At 31 December 2014 the fair value adjustments for the December 2014 acquisition of Unity Software Limited ("Unity") were provisional. The Group have completed the review in 2015 and the net assets acquired in 2014 and the intangibles arising were as follows:

	Carrying values pre acquisition £000	Fair value adjustments £000	Final fair value £000
<b>Net assets acquired</b>			
Intangible fixed assets	–	1,613	1,613
Deferred tax liability	–	(323)	(323)
Property, plant and equipment	12	–	12
Trade and other receivables	43	–	43
Cash and cash equivalents	70	–	70
Trade and other payables	(31)	–	(31)
Deferred income	(36)	–	(36)
	<u>58</u>	<u>1,290</u>	<u>1,348</u>
Goodwill			–
Total consideration			<u>1,348</u>
<b>Satisfied by</b>			
Cash paid on completion			1,300
Cash paid following year end			48
			<u>1,348</u>

The intangible assets acquired as part of the acquisition of Unity can be analysed as follows:

	Final fair value £000
Software IPR and in process R&D	181
Customer relationships	1,432
	<u>1,613</u>

#### Fair Values, Proforma Revenue and Operating Profit

The fair value adjustments have been completed on a provisional basis for Jobstream and Finalsys. The Group will complete this review in 2016. As required under IFRS 3, the revenue and operating profit of the Group, on the basis that the Jobstream and Finalsys acquisitions had been completed at the beginning of 2015, would have been £32,992,000 and £5,267,000 respectively.

### 26 Commitments and operating leases

The Group and Company have no unprovided financial commitments (2014: £nil).

#### Operating leases – minimum lease payments

The Group leases various offices under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group also leases plant and machines under non-cancellable operating lease agreements.

**26 Commitments and operating leases (continued)**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 Dec 2015		31 Dec 2014	
	Properties £000	Other £000	Properties £000	Other £000
Within one year	750	1	698	3
In the second to fifth year inclusive	648	1	473	2
	<b>1,398</b>	<b>2</b>	<b>1,171</b>	<b>5</b>

The Company had no operating lease commitments during the year (2014: £nil)

**27 Share based payments**

**Performance Share Plan (PSP)**

Under the 2006 Performance Share Plan (PSP), the Remuneration Committee is allowed to grant conditional allocations of par value options in the Company to key executives. The contractual life of an option is 10 years.

The PSP is considered a Long Term Incentive Plan (LTIP) award.

Awards granted prior to 2013 are exercisable from the third anniversary of the date of grant, subject to specific criteria being met. These performance conditions were structured so that 50% of awards were subject to an adjusted earnings per share target and 50% were subject to a total shareholder return target.

5,475,000 awards were granted on 18 November 2013. The performance conditions in respect of 3,000,000 of the awards for the directors who served during the year ended 31 December 2015 are detailed on page 43 of the Directors' Remuneration Report. The balance of 2,475,000 awards have performance conditions in line with those described for Mr Wood on page 43.

715,000 options were granted on 21 October 2015 (2014: nil awards granted).

On 4 March 2016, Mr Ratcliffe is retiring and his PSP options totaling 2,500,000 will be forfeited.

At the year end there were 26 (2014: 28) employees currently participating in the scheme.

Exercise of an option is subject to continued employment.

Details of the share options outstanding under the PSP during the year are as follows:

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	5,495,004	5p	5,685,004	5p
Granted	715,000	6 3/7p	–	5p
Exercised	–	–	(85,917)	5p
Lapsed	(5,000)	5p	(90,000)	5p
Forfeited	(305,000)	5p	(14,083)	5p
Outstanding at 31 December	<b>5,900,004</b>	<b>5.17p</b>	<b>5,495,004</b>	5p
Exercisable at 31 December	<b>35,004</b>	<b>5p</b>	<b>45,004</b>	5p

# Notes to the Consolidated Financial Statements

## 27 Share based payments (continued)

No PSP share options were exercised in 2015. The weighted average share price at the date of exercise for share options exercised during 2014 under the Share Option Plans was 119.6p.

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 8.09 years (2014: 8.85 years).

### Share Option Plans

The Group has set up several Share Option Plans, under which the Remuneration Committee can grant options over shares in the Company to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. 8 employees (2014: 15) currently participate in these Plans.

Options granted under the Share Option Plans will become exercisable on the third anniversary of the date of grant, subject to specific criteria being met. The present criteria are based on a combination of factors including adjusted earnings per share and share price growth over a minimum period of three years.

Exercise of an option is subject to continued employment.

Details of the share options outstanding under the Share Option Plans during the year are as follows:

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	1,218,549	56.56p	1,262,081	57.07p
Exercised	(1,030,001)	52.14p	(26,250)	49.21p
Lapsed	(73,013)	111.44p	(7,500)	60.00p
Forfeited	–	–	(9,782)	140.00p
Outstanding at 31 December	<u>115,535</u>	<u>61.21p</u>	<u>1,218,549</u>	<u>56.56p</u>
Exercisable at 31 December	<u>115,535</u>	<u>61.21p</u>	<u>1,218,549</u>	<u>56.56p</u>

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 118.7p (2014: 123.6p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 2.58 years (2014: 3.39 years).

Included within the outstanding share options at 31 December 2015 under Share Option Plans and the PSP were outstanding share options of 5,865,000 (2014: 6,450,000) which whilst outside of the Association of British Insurers recommended limits, have been approved by the Company's shareholders.

The Group recognised total expenses of £110,000 (2014: £830,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total charge in the income statement was £109,000 (2014: £769,000). There was a deferred tax debit of £117,000 (2014: credit £92,000) and a corporation tax credit of £51,000 (2014: £23,000) taken directly to equity.

**28 Retirement benefit schemes**

The Group operates defined contribution retirement benefit plans for qualifying employees in the UK. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The Group also operates defined contribution retirement benefit plans for its overseas employees with contributions up to 9.76% of basic salary.

The total expense recognised in the income statement of £483,000 (2014: £412,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2015, contributions of £36,000 (2014: £23,000) due in respect of the 2015 reporting year had not been paid over to the plans and were included within accruals. The amounts were paid over subsequent to the balance sheet date.

**29 Related party transactions Group**

The following transactions were carried out with related parties:

During the year the Group entered into transactions with Science Group plc (formerly Sagentia Group plc). Microgen's Chairman, Martyn Ratcliffe, is Chairman of, and equity holder in Science Group plc. An employee of Sagentia Limited (a subsidiary of Science Group plc) provided administrative services to Microgen plc during the year and a cost of £10,800 (2014: £15,000) was charged to Microgen plc. There were no amounts owed at the year end.

The Company acts as the Group's treasury vehicle and during the year borrowed a net £7,043,000 (2014: £7,553,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2015 (2014: nil), as defined by International Accounting Standard No 24 "Related Party Disclosures" other than key management compensation as disclosed in note 3.

# Shareholder Information

Shareholder Analysis Range	Number of Shareholders	Percentage of overall total	Number of shares	Percentage of overall total
1 – 1,000	592	59.9%	189,021	0.3%
1,001 – 5,000	218	22.1%	488,737	0.8%
5,001 – 50,000	121	12.3%	1,853,348	3.1%
50,001 – 500,000	35	3.6%	4,903,565	8.3%
500,000 and above	21	2.1%	51,625,850	87.5%
<b>Totals</b>	<b>987</b>	<b>100.0%</b>	<b>59,060,521</b>	<b>100.0%</b>

Investor Type	Number of shares	Percentage of overall total
Nominee Companies	38,125,149	64.6%
Private Shareholders	10,767,182	18.2%
Bank & Bank Nominees	7,254,626	12.3%
Pension Funds	2,767,427	4.7%
Limited Companies	131,609	0.2%
Other Institutions	8,160	0.0%
Deceased Shareholders	6,368	0.0%
	<b>59,060,521</b>	<b>100.0%</b>

## Registered Office and Group Head Office

Microgen plc  
Old Change House  
128 Queen Victoria Street  
London  
EC4V 4BJ

Telephone: 020 7496 8100  
e-mail: [investors@microgen.com](mailto:investors@microgen.com)

## Registrar

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

Telephone: 0871 664 0300  
e-mail: [shareholdersenquiries@capita.co.uk](mailto:shareholdersenquiries@capita.co.uk)

Microgen plc ordinary shares are listed on the main market of the London Stock Exchange.

## Shareholders' enquiries

Enquiries regarding shareholdings or dividends should in the first instance be addressed to Capita Asset Services.

Please note that calls will cost 10p per minute plus network extras. Lines are open 9.00 am – 5.30 pm Monday to Friday, excluding public holidays.

## Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 a.m. on 25 April 2016 at Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ. Details are given in a separate notice to shareholders enclosed with this Annual Report. A copy of the Notice of Annual General Meeting together with this Annual Report is posted on the Company's website [www.microgen.com](http://www.microgen.com).



**microgen**

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**Web: [www.microgen.com](http://www.microgen.com) Company Registered Number: 1602662**

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