microgen plc

Annual report 2016

Directors, Officers and Advisors

Directors and Company Secretary

Ivan Martin
Non-Executive Chairman
Ivan Martin was appointed to the Board on 1 January 2016 and assumed the role of Non-Executive Chairman on 4 March 2016. Ivan is also Non-Executive Chairman of FDM Group (Holdings) plc and in August 2016 became Non-Executive Chairman of Church Topco Limited, trading as Xceptor (a London-based international software business backed by CBPE Capital).

Simon Baines
Chief Executive Officer, Microgen Financial Systems
Simon Baines was appointed to the Board on 1 January 2016 having joined Microgen in 2010 to lead the Microgen Financial Systems business. Prior to joining Microgen Simon worked in private equity covering financial services technology companies.

Tom Crawford
Chief Executive Officer, Aptitude Software
Tom Crawford was appointed to the Board on 1 January 2016 having joined the Group in 2003 as a Divisional Managing Director. Tom was appointed Senior Vice President of Aptitude Software in 2010 to expand its North American operations before being promoted to President in 2014 to lead the Aptitude Software business globally, a role that divides his time between Boston and London.

Philip Wood
Chief Financial Officer
Philip Wood was appointed Chief Financial Officer on 2 January 2007. A Chartered Accountant, Philip 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 Whiting
Senior Independent Non-Executive Director
Peter Whiting was appointed as a Non-Executive Director on 2 February 2012 and assumed the role of Remuneration Committee Chair and Senior Independent Non-Executive Director following the Company's 2016 Annual General Meeting. Peter 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. Peter is currently a Non-Executive Director of FDM Group (Holdings) plc and MBA Polymers Inc.

Peter Bertram
Non-Executive Director
Peter Bertram was appointed as a Non-Executive Director on 3 October 2006 and will retire from the board with effect from the close of the Company's 2017 Annual General Meeting. A Fellow of the Institute of Chartered Accountants in England and Wales, Peter is also Chairman of Ten Alps plc, Hobs Group Limited and Esteem Holdings Limited, and is a director of XMA Limited.

Mark Heather
Company Secretary
Mark Heather was appointed as Company Secretary on 22 August 2016. He 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

Contents

microgen

Chairman's Statement

The Group reports excellent progress in 2016 in line with the Group's declared strategy by both of its two businesses resulting in a financial performance ahead of the Board's original expectations for the year. The Aptitude Software business has entered into a record number of contracts with new clients whilst the Microgen Financial Systems business continues successfully to strengthen its focus on its chosen market.

Aptitude Software's focus on specialised financial management software applications has been rewarded with ten contracts being signed in 2016 with new clients located across Europe, North America and Asia (new market). These contracts, together with the contracts entered into in 2015, have contributed to revenue for the Aptitude Software business growing 58% to £26.4 million (2015: £16.7 million), growth of 48% on a constant currency basis. The ten new contracts are across Aptitude Software's core markets of banking, insurance and telecommunications. At the start of 2017 the business also has entered the North American healthcare sector by signing a significant contract with one of its key participants. This sale further demonstrates Aptitude Software's scalability to service demand from new industry verticals, and the ability of the business to leverage both its expertise and technology successfully into new markets.

Microgen Financial Systems continues to benefit from its focus on the Trust & Fund Administration ("T&FA") market within the wealth management sector. This focus has led to Microgen Financial Systems' revenue increasing to £16.6 million (2015: £15.2 million) with T&FA revenues increasing by 37% to £8.9 million (2015: £6.5 million). T&FA revenues now represent 54% (2015: 43%) of overall revenue for the business in 2016. Complementing continued progress with the Microgen 5Series product the business completed the acquisition of Infoscreen (Cyprus) Limited in May 2016 which, together with the February 2017 acquisition of Primacy Corporation, brings the total number of acquisitions in the T&FA market since December 2014 to five.

Having considered the Group's progress and financial performance in 2016 the Board proposes the payment of a final dividend of 3.5 pence per share (2015: 2.8 pence), making a total of 5.0 pence per share for the year (2015: 4.2 pence), an increase of 19% per share. The proposed final dividend will be paid on 26 May 2017, subject to shareholder approval, to shareholders on the register at 5 May 2017.

In line with previous announcements Peter Bertram will be retiring from the Board pursuant to the 2017 Annual General Meeting on 24 April 2017 having originally been appointed to the Board in 2006. The Board wish to thank Peter for his guidance over the last decade. As previously announced Barbara Moorhouse will succeed Peter in his role as Audit Committee Chair on Peter's retirement from the Board.

This strong set of results would not have been possible without the outstanding contributions from the Group's employees. The Board introduced a group-wide share option scheme during the course of 2016 in which a large proportion of employees are participating. Further investment continues to be made by the Group in its human capital as it is acknowledged that continued growth will only be possible by creating an environment in which employees can fulfil their potential.

The Board is pleased with the Group's start to 2017 highlighted by the Aptitude Software business opening up a new sector for its technology and the completion by Microgen Financial Systems of a further acquisition in the T&FA market. Aptitude Software will benefit during the course of 2017 from its recent contractual successes whilst Microgen Financial Systems is benefitting from its strong position in the T&FA market. The Board remains confident that the progress achieved in the past year will continue in 2017.

Ivan Martin
Chairman

8 March 2017

Aptitude Software
Report

The Aptitude Software business provides a series of specialised financial management software applications. The software is developed on the Aptitude technology platform, an enterprise level Application Platform which facilitates the very rapid processing of very high volume complex, business event-driven transactions and calculations. The Aptitude technology platform and the Aptitude-based 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.

2016 has seen strong demand for both the Aptitude Accounting Hub and the Aptitude Revenue Recognition Engine resulting in ten contracts with new clients being entered into during the course of the year. Benefitting from the contracts entered into in both 2015 and 2016, revenue increased during the year ended 31 December 2016 by 58% to £26.4 million (2015: £16.7 million), growth of 48% on a constant currency basis. Operating profit increased by 131% to £3.8 million (2015: £1.7 million) (an increase of 71% on a constant currency basis) representing an operating margin of 15% (2015: 10%).

The Board continues to be focussed on increasing Aptitude Software's on-going recurring revenue base by promoting its annual licence fee model. As a result of the contracts entered into 2016, at the year end the on-going recurring revenue base stands at £12.6 million (2015: £9.0 million), an increase of 40% (the on-going recurring revenue base includes recurring revenues contracted but yet to commence and excludes recurring revenues which are currently being received but are known to be terminating in the future).

Despite the strong preference for annual licence fees, Aptitude Software has entered into a small number of initial licence fee contracts, albeit with strong on-going maintenance revenues. The licence revenue from these agreements is invoiced and recognisable over a number of years and is disclosed within the software revenues which have increased in 2016 to £12.4 million (2015: £9.0 million). (Software revenue includes annual and initial licence fees, software maintenance and support).

Implementation and professional services revenue has increased to £14.0 million (2015: £7.7 million) with the number of projects increasing pursuant to the new contracts secured in 2015 and 2016. Growth of implementation revenue is a profitable by-product of the focus on the growth on Aptitude's software revenues; the provision of key resources to a number of clients is important for their adoption of Aptitude's products. Nevertheless, Aptitude Software is increasingly becoming accustomed to working alongside a number of partners on the larger projects in which it is involved, an approach that has directly contributed to partner support for new contracts in 2016. With the increasing number of on-going projects across Europe, North America and Asia (new market), Aptitude Software is successfully scaling its implementation capacity by working closely with a number of partners, especially in jurisdictions into which Aptitude is making its initial entry. These partners contribute expertise and local market knowledge, however, their use can generate lower operating margins than utilising Aptitude's employees if the partners are sub-contracted to Aptitude Software. The Aptitude Software business enters 2017 with good visibility over its services revenue for the year benefitting from contract wins, both in 2016 and 2015.

Aptitude Software has continued to make excellent progress with the Aptitude Revenue Recognition Engine ("ARRE") which is focussed on the telecoms industry. ARRE enables telcos to address the depth of change, risks and costs associated with the changing regulatory environment (namely, IFRS 15 and ASC 606 revenue accounting standard). With the contracts signed in the first half of 2016, Aptitude Software now provides ARRE to three of the four largest telcos in the US, a territory that has been ahead of other markets in the implementation of solutions to address the introduction of IFRS 15 and ASC 606. The second half of the year has resulted in a number of contracts for ARRE being signed with telcos in the United Kingdom, mainland Europe, Scandinavia, the Far East and Australia.

The Aptitude Accounting Hub ("AAH") has a number of clients within banking, insurance and more recently telecommunications and, as the result of a further contract with a new client entered into at the start of 2017, healthcare. AAH is a high volume operational accounting platform that centralises control, improves reporting and generates a rich foundation of contract level finance data. AAH continues to attract a number of customers with new contracts entered into in both North America and Europe. Particularly pleasing is the extension of AAH with other Aptitude technologies and products into the US healthcare market. As with many of Aptitude Software's markets, regulatory and industry change is a driver of demand for its products in US healthcare. These drivers within US healthcare have resulted in increasingly complex contracts, products and services. This complexity has resulted in much higher volumes of complex accounting and consequently a need for healthcare payers and providers to understand and focus on profitability at new levels of depth and sophistication. AAH provides participants within the US healthcare market with the capability to modernise and centralise their operational finance architecture in order to provide the necessary detail which ERP systems typically cannot provide.

The business has also developed, and is developing, a select number of other specialised financial management software applications which serve the finance functions of large organisations by delivering finance integration, accounting and calculation engines together with other rules-based solutions in functional areas which are highly complex or require the rapid processing of high volumes of data. To ensure that the existing Aptitude-based applications retain their market-leading positions and new applications are successful further investment is being made in the Aptitude Technology Centre in Poland with the number of research and development specialists targeted to increase by approximately 10% in the first half of 2017 (31 December 2016: 100, 31 December 2015: 86). The business continues to monitor carefully its investment in these new opportunities in light of market and regulatory developments. Research and development expenditure in the year was £4.2 million (2015: £4.3 million) with all costs expensed as incurred.

The growth in operating margin to 15% (2015: 10%) is despite investment being made during the course of 2016 in a number of other areas of the business including the strengthening of the senior management, product management and business development teams. The full cost effect of these investments will be felt in 2017.

Aptitude Software is an increasingly international business with 53% of its revenues invoiced in US Dollars to North American clients (2015: 38%). The business has benefitted in 2016 from the strengthening of the US Dollar vs. GBP. Aptitude Software's 2016 revenue would have increased by 48% to £24.7 million on a constant currency basis (compared to actual result of £26.4 million). On a constant currency basis operating profit in 2016 would have increased by 71% to £2.8 million (compared to actual result of £3.8 million). 2016 benefitted from the twelve month rolling hedge in respect of Aptitude's research and development expenditure in Poland – these hedges have minimised the impact of the strengthening Zloty vs. GBP in 2016, however, the effects of this exchange rate movement will be felt more strongly in 2017 with the full effect deferred until 2018 and subsequent years.

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 specialised financial management software applications to meet new accounting standards, regulations or business areas poorly served by ERP systems. Operating performance was above management expectations set at the start of 2016 and with a number of the new contracts only materially benefitting 2017 and subsequent years the Aptitude business has excellent visibility for the current year.

Tom Crawford

Chief Executive Officer, Aptitude Software

8 March 2017

Microgen Financial Systems
Report

The Microgen Financial Systems business is continuing to make strong progress in achieving its strategic objective to increase the proportion of its revenues from the Trust & Fund Administration ("T&FA") sector, both through organic growth and add-on acquisitions. Microgen Financial Systems' key product in this sector is Microgen 5Series which addresses the core operational requirements of a number of organisations including Trust Administrators, Fiduciary Companies, Corporate Services Providers and Fund Administrators. In addition to Microgen Financial Systems' T&FA operations, revenue is generated from both a Payments software business and an Application Management business covering a range of Microgen-owned and third party systems principally focussed on the financial services industry. Revenues are generated through a combination of software licence fees (primarily annual recurring licences), software maintenance/support fees and professional services.

Microgen Financial Systems' revenue for the year ended 31 December 2016 increased by 9% to £16.6 million (2015: £15.2 million). Recurring revenue accounts for 80% (2015: 83%) of total revenue, with 24% being generated by the top 5 clients (2015: 25%). Adjusted operating profit, reflecting the timing of recent acquisitions and subsequent integration programmes is reported in line with expectations at £7.2 million (2015: £7.2 million) representing an adjusted operating margin of 43% (2015: 48%). The reduction in the adjusted operating margin is due to the change in mix between the growing T&FA business and the declining Application Management business with its higher margins reflecting the maturity of that business. Operating profit on a statutory profit basis increased to £6.3 million (2015: £5.0 million).

Trust and Fund Administration

The key highlights for the business are the continued sales progress being made by Microgen 5Series and the acquisitions in May 2016 of Infoscreen (Cyprus) Limited ("Infoscreen") and, subsequent to the year end, Primacy Corporation ("Primacy").

The underlying organic growth due to success with Microgen 5Series, together with the recent acquisitions, has resulted in T&FA revenue growing by 37% to £8.9 million (2015: £6.5 million) representing 54% (2015: 43%) of Microgen Financial Systems' revenue with an expectation that this will increase further as a proportion of overall revenue in 2017. T&FA recurring revenue in 2016 has increased by 34% to £6.7 million (2015: £5.0 million) with the business benefitting from both a number of new customer contracts and the acquisition of Infoscreen. The T&FA on-going recurring revenue base at 31 December 2016 has increased by 21% to £6.9 million (2015: £5.7 million) with £0.6 million of the increase attributable to the Infoscreen acquisition (the on-going recurring revenue base includes recurring revenues contracted but yet to commence and excludes recurring revenues which are currently being received but are known to be terminating in the future).

Included within the T&FA revenue of £8.9 million (2015: £6.5 million) is £6.6 million (2015: £5.0 million) generated from Microgen 5Series (and 4Series) and £2.3 million (2015: £1.5 million) from the T&FA products acquired since December 2014. The strong growth in Microgen 5Series revenues benefits from both new name customer wins as well as conversions to Microgen 5Series from the T&FA acquisitions completed since December 2014. The software and services fees arising from these conversions represents £1.0 million (2015: £0.2 million) of the £6.6 million revenue from Microgen 5Series (and 4Series).

The acquisition of Infoscreen was completed in May 2016. Infoscreen's software is used by approximately 200 customers in the T&FA sector providing the business with a strong recurring revenue base. The consideration for the Infoscreen acquisition was £1.4 million, in addition to a commitment to settle vendor debt of £0.3 million following acquisition. Infoscreen generated £0.4 million revenue in 2016 whilst under Microgen's ownership. Integration is progressing in line with expectations.

The acquisition of Primacy was completed following the year end and represents the fifth add-on acquisition by Microgen in the T&FA market since December 2014. Primacy is a Toronto-based provider of software to the T&FA market and its acquisition provides Microgen with a strong recurring revenue base. The consideration for the Primacy acquisition is £3.4 million. Primacy's revenue in the year ending 31 October 2016 was £1.2 million with profit before tax of £0.6 million.

New business sales progress with Microgen 5Series has continued with contracts signed with organisations ranging from small trust companies to multi-jurisdiction financial services groups. To maximise the opportunity provided by the strong market positioning of Microgen 5Series and the recent acquisitions, Microgen Financial Systems has invested in its sales and commercial teams, the benefit of which is expected to be realised in future periods. Further investment has also been made in the development team for the T&FA products – principally focussed on Microgen 5Series – which will enable Microgen 5Series to retain its competitive advantages over rival offerings.

The combination of organic growth and strategic, add-on acquisitions is further enhancing Microgen's already strong market positioning in T&FA and the T&FA business enters 2017 strongly positioned and with good visibility due to the contracts secured in 2016.

Payments

The Payments business offers a range of Bacs software products which enable organisations to make automated payments in the United Kingdom using Bacs payment services over the internet (Bacstel-IP). Revenue from the Payments business has increased in 2016 to £1.5 million (2015: £1.3 million) due to an increase in implementation revenues as a number of clients upgraded to the latest version of the software. Implementation revenues in 2017 are expected to return to historical levels. The Payments business benefits from contracts with over 500 well-diversified clients and high levels of recurring revenue (2016: 85% (2015: 92%)).

Application Management

The Application Management business comprises a number of Microgen-owned and third party systems focussed principally on financial services. Consistent with the maturity of the solutions provided by the Application Management business it is expected that revenues will continue to reduce as experienced in recent periods, however, within the business there is a core of supported software solutions which are expected to continue in the medium to long term. The Application Management business reported revenue in line with management expectations at £6.2 million (2015: £7.4 million) of which £5.4 million was recurring in nature (2015: £6.3 million).

Summary

In summary, the Microgen Financial Systems business continues to progress successfully its strategy to increase the proportion of its higher value T&FA revenues through both organic growth and add-on acquisitions. With recurring revenue accounting for 80% (2015: 83%) of total revenue the business has excellent future visibility.

Simon Baines

Chief Executive Officer, Microgen Financial Systems

8 March 2017

Group Financial Performance and
Chief Financial Officer's Report

Throughout this statement adjusted operating profit and margin excludes non-underlying operating items, unless stated to the contrary and constant currency growth is calculated by comparing 2015 results with 2016 results retranslated at the rates of exchange prevailing during 2015.

Revenue for the year ended 31 December 2016 was £43.0 million (2015: £32.0 million) producing an adjusted operating profit of £9.5 million (2015: £7.6 million), growth rates of 35% and 26% respectively. On a constant currency basis revenue for the year was £41.3 million (2015: £32.0 million) with adjusted operating profit of £8.5 million (2015: £7.6 million), growth rates of 29% and 12% respectively. Operating profit on a statutory basis was £8.2 million (2015: £5.3 million) after net non-underlying costs of £1.3 million (2015: £2.3 million). Group overhead costs were £1.5 million (2015: £1.3 million). The Group reported a profit for the year attributable to shareholders of £6.2 million (2015: £3.7 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 2016 was £7.3 million (2015: £6.8 million). The number of employees within the Group at 31 December 2016 was 312 (31 December 2015: 257).

Net non-underlying operating costs in 2016 were £1.3 million (2015: £2.3 million) including a £0.8 million (2015: £0.4 million) amortisation charge in respect of acquired intangible assets and £0.4 million (2015: £0.1 million) regarding the shareholder-approved option grants in 2013.

The total tax charge for the year is £1.6 million (2015: £1.2 million). After adjusting for the effect of non-underlying and other items, the Group's tax charge represents 21.8% of the Group's adjusted profit before tax (2015: 21.5%) which is the tax rate used for calculating the adjusted earnings per share. Adjusted earnings per share for the year ended 31 December 2016 was 12.3 pence (2015: 9.2 pence). Basic earnings per share for the year was 10.6 pence (2015: 6.0 pence).

The Group has a strong balance sheet with net assets at 31 December 2016 of £43.4 million (2015: £38.6 million), including cash at 31 December 2016 of £23.8 million (2015: £18.6 million), and net funds at 31 December 2016 of £13.6 million (2015: £5.4 million). During the year there were net corporate cash outflows of £1.6 million (comprising £2.5 million of dividends, net consideration related to acquisitions of £1.4 million and property proceeds of £2.3 million). The loan outstanding, secured solely on the Microgen Financial Systems business, was £10.3 million at 31 December 2016 (2015: £13.3 million). Trade and other receivables outstanding at 31 December 2016 have increased to £8.3 million (2015: £4.7 million) as a result of both the growth in the Group's revenue and the requirement, on occasion, to accept payment terms with certain international customers in excess of past experience. The growth has also resulted in deferred income increasing by 21% to £20.6 million at 31 December 2016 (2015: £17.0 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 138% in the year (2015: 102%) benefitting principally from the growing recurring revenue base where clients typically pay annually in advance.

Pursuant to the EU referendum in the United Kingdom the Group has made an initial assessment of the likely impact upon its two operating businesses. The initial impact has been the weakening of sterling versus a number of its key trading currencies, most notably Euro, Polish Zloty and US Dollar. The exchange rate movements pursuant to the referendum have had a positive impact on the Group's results as demonstrated by the constant currency revenue and profit disclosures included within this report. The Group has recently introduced a hedging policy for the US Dollar, in addition to the longstanding policy in respect of Aptitude Software's Polish Zloty cost base where forward exchange contracts are entered twelve months in advance. Further to the foreign exchange volatility, the Group has assessed the potential future restrictions to free movement of labour in light of the EU referendum and other political changes. The Group has established a number of relationships which reduces its previous dependency on deploying its consultants into countries which they are not citizens of, nevertheless, the Group will continue to monitor developments in this area.

Philip Wood
Chief Financial Officer
8 March 2017

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 2016.

Results and Dividends

The results for the year are set out in the financial statements and notes that appear on pages 52 to 107. As explained in the Chairman’s Statement, the directors propose the payment of a final dividend of 3.5 pence per share, making a total of 5.0 pence per share for the year (2015 total: 4.2 pence). Subject to shareholder approval, the proposed final dividend will be paid on 26 May 2017 to shareholders on the register at close of business on 5 May 2017.

The ordinary dividends paid in 2016 totalled £2.5 million (2015: £2.1 million).

Principal Activities

The Company is the corporate parent of two information technology businesses, operated as independent business units. The Company and its subsidiaries together are referred to in this Annual Report as “the Group”. 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

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 Microgen Financial Systems business are Operating Profit before Non-Underlying Items, Recurring Revenue, and growth in the Trust and Fund Administration sector revenues. The Key Performance Indicators for the Aptitude Software business are Revenue Growth, Operating Profit 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 22 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 to 13.

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 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;
- 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 carries out 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.	The Group's 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 Microgen 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.

Table detailing Principal Risks and Uncertainties (continued)

Major Risks and Uncertainties	Explanation	Mitigating Action
Claims by others that the Group's products or brands infringe 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 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.	The Group's products involve sophisticated technology that performs 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. 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.	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 Microgen Financial Systems business may not be able to comply with its obligations under its loan agreements.	The Microgen 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 Microgen 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.

Table detailing Principal Risks and Uncertainties (continued)

Major Risks and Uncertainties	Explanation	Mitigating Action
Fluctuations in exchange rates and interest rates.	Unexpected fluctuations in exchange rates and interest rates could result in financial loss or exposure.	The Group routinely enters into forward contracts in respect of monthly transactions with the Group's Polish development organisation and, with effect from February 2017, enters into forward exchange contracts in respect of its activities transacted in U.S. Dollars. 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.
Risk of reduced global labour mobility.	Political changes could hinder the mobility of labour globally and impact the Group's ability to deploy its consultants working with the Group's clients in overseas territories including Europe and the US.	Where appropriate the Group employs individuals who are resident in the countries where work needs to be performed. The Group retains appropriate advisers to assist in the global mobility of employees in countries where the Group has no resident employees. In addition the Group is continuing to develop relationships with organisations who have implementation capability in key territories.

Going Concern and Long Term Viability Statement

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 meet 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.

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 2016:

	Board diversity		Top leadership diversity		Total workforce diversity	
	2016	2015	**2016**	2015	**2016**	2015
Men	**6**	4	**11**	10	**238**	196
Women	**0**	1	**1**	3	**74**	61
Men %	**100%**	80%	**92%**	77%	**76%**	76%
Women %	**0%**	20%	**8%**	23%	**24%**	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 from time to time provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when decisions are made that are likely to affect their interests. 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. Barbara Moorhouse is to be appointed as a Non-Executive Director with effect from 1 April 2017 as a result of which the Board will comprise six male directors (86%) and one female director (14%), and the Group's top leadership will consist of eleven men (85%) and two women (15%). The Group's policies remain consistent with the requirements of the Universal Declaration on Human Rights and the spirit of the International Labour Organisation core labour standards.

A highlight for 2016 was the introduction of the Save As You Earn Scheme 2016 which is open to a significant majority of employees. The Group is pleased with the high level of participation in the scheme, which encourages the involvement of employees in the Group's performance, and (together with the regular communications referred to above) assists in achieving a common awareness on the part of employees of the financial and economic factors that affect the Group's performance.

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 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_2-equivalent" (tCO_2e) 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 (since 2015), the USA, Canada (since 2016) and South Africa (operations now closed). The Company has also included emissions from its 2016 acquisition including operations in Hong Kong (now closed), Cyprus and Serbia – these emissions have been incorporated into the historic baseline. The methodology used to compile this data is in accordance with the requirements of the following standards: the World Resources Institute's (WRI) 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 2016 totalled 814 tCO_2e (2015: 902 tCO_2e), consisting of:

- 145 tCO_2e from the combustion of fuel and the operation of any facilities; and
- 669 tCO_2e from the purchase of electricity, heat, steam or cooling by the Group for its own use.

	Emissions source	**Tonnes of CO_2e 2013**	**Tonnes of CO_2e 2014**	**Tonnes of CO_2e 2015**	**Tonnes of CO_2e 2016**	**Percentage change to 2015**
CO_2e from the combustion of fuel and the operation of any facilities	Natural gas	126	155	146	137	6% reduction
	Refrigerant	118	40	20	6	70% reduction
	Owned Vehicles	2	2	2	2	–
CO_2e from the purchase of electricity, heat, steam or cooling by the Group for its own use	Purchased electricity	804	834	734	669	9% reduction
	Total	**1,050**	**1,031**	**902**	**814**	**10% reduction**

Carbon intensity ratio for this reporting year was 18.9 tCO_2e (2015: 28.2 tCO_2e) per £1,000,000 turnover.

This is the fourth year that carbon footprint data has been gathered and the Group has seen a continued decrease in emissions, with a 10% reduction in total material emissions between 2015 and 2016, with benefit received from moving to a smaller office in Fleet, Hampshire.

In 2015 the WRI 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 where energy consumption occurs. The market based method reflects emissions from energy that companies have chosen or their lack of choice.

Country	**Electricity generation (location based) tCO_2e**	**Electricity generation (market based) tCO_2e**	**Instrument types**
UK & Channel Islands	274	303	Mix of supplier fuel mix disclosure emission rate and residual mix factor
Poland	353	396	Supplier fuel mix disclosure
USA	6	6	Average national emissions factor
Canada	<1	<1	Average national emissions factor
Hong Kong	2	2	Average national emissions factor
Cyprus	29	34	Residual mix factor
Serbia	5	5	Average national emissions factor
Total	**669**	**746**	

Where it has not been practical to gather data on energy use for the Group's smaller offices, or those newly occupied, benchmark energy consumption figures have been used. In addition, a CO_2 equivalent conversion factor is not available for all locations so a CO_2 only factor has been used for these offices. Residential accommodation for employees is not included in our GHG emission statement.

The Group's financial reporting year is the calendar year. However, the group has set its GHG reporting period back by a quarter to facilitate data collection. Therefore the reporting period for greenhouse gas emissions is 1 October 2015 to 30 September 2016. The Company reports on GHG sources over which operational control is held and which are associated with the business activities covered in this Report of the Directors.

Political Donations

The Group made no political donations in the year (2015: £nil).

Substantial Shareholdings

In accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority. As at 6 March 2017, the Company had been advised of the following notifiable interests in its voting rights:

	Number of Shares	**% Issued Share Capital**
Schroders plc	10,177,597	16.97%
Aberforth Partners LLP	8,313,432	13.86%
P F and C C M Barbour*	5,293,031	8.82%
Kestrel Opportunities	4,147,524	6.91%
Invesco Limited	3,104,058	5.17%
Hargreave Hale Limited	3,054,812	5.09%
FIL Limited	2,143,504	3.57%
L G Crisp and Mrs H Crisp	2,120,690	3.53%
The Wellcome Trust Limited	2,051,243	3.42%
Herald Investment Management Limited	1,963,889	3.27%

* 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 8 March 2017 the Company had a single class of share capital which is divided into ordinary shares of 6 3/7 pence each.

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 24 April 2017 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.

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.

Repurchase of Own Shares

At the Annual General Meeting held on 25 April 2016 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 5,906,052 ordinary shares of 6 3/7 pence each. Such purchases could be made at no more than the higher of:

(a) 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; or

(b) the higher of the price of the last independent trade of any share and the highest current bid for a share as stipulated by Article 5(1) of the Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments (2273/2003).

The minimum price which could be paid for each share was 6 3/7 pence. 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 24 April 2017.

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 107.

Directors

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

Ivan Martin
Simon Baines
Tom Crawford
Philip Wood
Peter Whiting
Peter Bertram (will resign with effect from the close of the forthcoming Annual General Meeting to be held on 24 April 2017)
Martyn Ratcliffe (resigned 4 March 2016)
Vanda Murray (resigned 18 July 2016)

Biographical details of the current directors are given on the inside front cover of this Annual Report. Barbara Moorhouse will be appointed as a director with effect from 1 April 2017 and stands for re-election, as is required for directors at the Annual General Meeting following their appointment. The Articles of Association require directors to offer themselves for re-election at intervals of no more than three years and, accordingly, Peter Whiting will also be standing for re-election this year.

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 committed 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 2016 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 arising in respect of the Group's Polish development organisation, the Group routinely enters into forward contracts in respect of monthly transactions with that part of the Group's business. The Group also has exposure to exchange rate risks arising in respect of US Dollar revenue and costs in the Group's Aptitude Software business, and the Group has implemented in February 2017 a hedging policy involving the entry into forward contracts in respect of these US Dollar denominated transactions. In the meantime, the Group continues to monitor exchange rate risk generally 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 72 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 £388,000 at 31 December 2016 (2015: £64,000).

At 31 December 2016, for the Group the average number of days of annual purchases represented by year end creditors was 49 days (31 December 2015: 41 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.

Corporate Governance

The Group's statement on corporate governance is included in the Corporate Governance Statement on pages 21 to 29, 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 Monday 24 April 2017 at Sentinel House, Harvest Crescent, Ancells Business Park, Fleet, GU51 2UZ. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

By Order of the Board

Mark Heather
Company Secretary

8 March 2017

Statement of Compliance

The Group has applied the main principles set out in the September 2014 edition of the UK Corporate Governance Code ("Code"), which is available to view on the website of the Financial Reporting Council (www.frc.org.uk). A full statement of compliance with the Code's main principles of the Code of Best Practice is on pages 28 to 29.

The Company has complied with the Code throughout the year ended 31 December 2016, other than the exceptions stated as follows:

A.2.1 – Chairman and Chief Executive – The Code requires that the roles of Chairman and Chief Executive should not be exercised by the same individual. Martyn Ratcliffe was Executive Chairman in 2016 until his retirement on 4 March 2016. The Board was satisfied that the combined role was in the interest of shareholders during that period due to the Group's operating businesses being managed by the Chief Executive Officers 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. Following the retirement from the Board of Martyn Ratcliffe on 4 March 2016, Ivan Martin assumed the role of Non-Executive Chairman and the Board now considers that it meets the requirements of provision A.2.1 of the Code.

B.1.1 – Independence of Non-Executive Directors – Peter Bertram has served on the board for more than 9 years since his appointment in October 2006 and is therefore not treated as independent for the purposes of the Code. As previously announced, the Board considered it important (following the retirement from the Board of Martyn Ratcliffe as Executive Chairman in March 2016) for Peter Bertram to continue in his role until the 2017 Annual General Meeting, in order to provide continuity and stability during the initial period of Ivan Martin's new chairmanship. That transition was implemented successfully during 2016 and Peter Bertram will be retiring from the Board with effect from the close of the Company's Annual General Meeting in April 2017.

B.1.2 – Board Composition – The Code requires that the Board of the Company (being a "smaller company" for the purposes of the Code) should have at least two independent Non-Executive Directors. Following the retirement of Vanda Murray in July 2016, the Company's board has comprised Ivan Martin (Non-Executive Chairman) and Peter Whiting (Non-Executive Director), both of whom are independent for the purposes of the Code, and Peter Bertram (Non-Executive Director) who is not treated as independent for the purposes of the Code because he has served on the board for more than 9 years (the reasons for which are stated above). Barbara Moorhouse (who is independent for the purposes of the Code) will be joining the Board as a Non-Executive Director on 1 April 2017, following which the board will include two independent Non-Executive Directors in addition to the independent Non-Executive Chairman. As stated above, Peter Bertram will step down from the Board following the Company's AGM on 24 April 2017.

B.2.1, C.3.1 and D.2.1 – Composition of Board Committees – The Code requires that the Nomination Committee, Audit Committee and Remuneration Committee should comprise at least two independent Non-Executive Directors, in addition to the company chairman. As stated above, Peter Bertram (who was a member of all three committees during 2016) has served on the board for more than 9 years and is therefore not treated as independent for the purposes of the Code. This means that, since the retirement of Vanda Murray in July 2016, the Nomination Committee, Audit Committee and Remuneration Committee have comprised Ivan Martin (Non-Executive Chairman) and Peter Whiting (Non-Executive Director), both of whom are independent for the purposes of the Code, and Peter Bertram (Non-Executive Director) who is not treated as independent for the purposes of the Code. Consequently the composition of those committees has not met the requirement for at least two independent Non-Executive Directors (excluding the company chairman). For the reasons stated above, the Board considered it important (following the retirement from the Board of Martyn Ratcliffe as Executive Chairman in March 2016) for Peter Bertram to continue in his role until the 2017 Annual General Meeting. Barbara Moorhouse (who is independent for the purposes of the Code) will be joining the

Nomination Committee, Audit Committee and Remuneration Committee on her appointment to the board as a Non-Executive Director on 1 April 2017, at which point the Company will again be compliant with provisions B.2.1, C.3.1 and D.2.1 of the Code. Barbara Moorhouse will take over as chair of the Audit Committee when Peter Bertram retires from the board following the Company's AGM on 24 April 2017.

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. The Board also benefits from a rolling series of presentations by senior managers within different areas of the Group's business.

The Chairman is primarily responsible for management of the Board, corporate strategy and development and ensuring effective communication with shareholders. The Chief Executive Officers 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. Peter Whiting is the Senior Independent Non-Executive Director. In performing this role, Peter provides shareholders with someone to whom they can turn if ever they have concerns which they cannot address through the normal channels, for example with the Chairman or Executive Directors. Peter is also available as an intermediary between his fellow Directors and the Chairman. Whilst there were no requests from Directors or shareholders for access to the Senior Independent Director during the year, the role serves as an important check and balance in Microgen's governance process. In the fulfilment of his role Peter ensures that he maintains an appropriate level of understanding of the views of the Company's shareholders.

Notwithstanding the statement on page 21 that Peter Bertram is not considered to be independent for the purposes of the Code, 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 recent and relevant 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.

Board Committees

Throughout 2016 each of Ivan Martin, Peter Bertram and Peter Whiting served on the Nomination, Remuneration and Audit Committees. Vanda Murray served on the Nomination, Remuneration and Audit Committees until her retirement from the Board in July 2016 and Martyn Ratcliffe served on the Nomination Committee until his retirement from the Board in March 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

Ivan Martin assumed the chairmanship of the Nomination Committee on 4 March 2016. During the year, the Committee also comprised Peter Whiting, Peter Bertram, Vanda Murray (until her retirement from the Board in July 2016) and Martyn Ratcliffe (who also chaired the Committee until his retirement from the Board in March 2016). Barbara Moorhouse will join the Committee following her appointment to the Board on 1 April 2017.

The Nomination Committee meets at least once a year and its main responsibilities are to:

- Review the structure, size and composition of the Board and its Committees including its balance of skills and experience and make recommendations to the Board with regard to any changes;
- Lead the process for Board appointments and recommend new appointments to the Board for approval; and
- Consider succession for Directors and other senior executives, including the identification and assessment of potential candidates and making recommendations to the Board for its approval;

During the year, the Committee met once, with all members present.

The Committee's key focus during the year was overseeing the process for the appointment of a new Non-Executive Director. The Committee set out the types of skills and attributes it envisaged the new Non-Executive would have, which it communicated to Sapphire Partners Limited, a recruitment specialist. Sapphire Partners Limited has no other connection to the Group.

Following the identification of potential candidates for the role by Sapphire Partners Limited, all Committee members interviewed the potential candidates with the final short list of candidates being interviewed by the Executive Directors. The Board is delighted that Barbara Moorhouse has accepted an appointment to the Board with effect from 1 April 2017.

The Board and the Committee recognises 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. In leading the process to appoint Barbara Moorhouse the Committee and the Board have sought to recruit the best candidate to promote the long term success of the Group based on merit and with due regard for the benefits of diversity on the Board. The appointment of Barbara Moorhouse will not only increase the diversity of the Board as regards gender, but also brings valuable new skills and experience which will further enhance the effectiveness of the Board's operation.

During the year the Committee also:

- reviewed succession planning, considering both short term emergency and long term planning scenarios, and executive talent management
- carried out the annual evaluation of the effectiveness of the Committee
- Carried out a review of the skills of each of the Directors and the independence of each of the independent Non-Executive Directors prior to the 2016 AGM and recommended Directors for re-election at the 2016 AGM.

In 2016 an internal evaluation of the Committee was undertaken. The evaluation concluded that the Committee continues to operate effectively.

The Committee's priority for 2017 will be to focus on succession planning and talent development.

Remuneration Committee

Peter Whiting assumed the role of Remuneration Committee chair with effect from 25 April 2016. The Committee also comprises Ivan Martin and Peter Bertram. Vanda Murray was chair of the Remuneration Committee until her retirement from the Board at the Company's Annual General Meeting on 25 April 2016. The Directors' Remuneration Report appears on pages 30 to 51.

Audit Committee

Peter Bertram, a Fellow of the Institute of Chartered Accountants in England and Wales, is chairman of the Audit Committee and the Committee also comprises Ivan Martin, Peter Whiting and, with effect from her appointment on 1 April 2017, Barbara Moorhouse. Vanda Murray was also a member of the Audit Committee until her resignation from the Board on 18 July 2016. Peter Bertram will step down as chairman of the Committee when he retires from the Board at the Company's Annual General Meeting in 2017, at which time Barbara Moorhouse will take on the role of Committee chair. The Audit Committee monitors the integrity of the financial statements of the Company and meets regularly with management and PricewaterhouseCoopers LLP (the Company's 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.

External audit partners are rotated every five years (seven years for subsidiary companies). The current external audit partner is John Maitland, who was first appointed to the role in respect of the 2013 financial year audit.

The external auditors present in advance of the year end their approach to the forthcoming audit together with their findings from the audit following the completion of their 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 2016 financial statements, however, following the initial appointment of PricewaterhouseCoopers LLP in 1996, under the Competition and Markets Authority regulation a replacement auditor will need to be appointed to report on the 2023 financial statements.

The number of meetings of the Committee and the details of attendance by Committee members are set out at page 26. The Executive Directors attended the Audit Committee meetings throughout 2016 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. Both the Committee and the Board keep the external auditor's independence under close scrutiny. The Committee also continues to keep under review the nature of the work and level of fees paid to the external auditors for non-audit work and considers that this has not affected the auditors' objectivity and independence. The Committee delegates the authority for approval of such work to the Chief Financial Officer where the level of fees involved is clearly trivial. The Group also receives a formal statement of independence and objectivity from the external auditors each year. With effect from 1 January 2017 the Group no longer engages the external auditors to provide any tax-related services.

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 in its review of the financial statements 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 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. Whilst the Group continues to promote its preferred Annual Licence Fee model, a small number of material contracts were secured in 2016 on an Initial or Perpetual Licence Fee basis with accompanying on-going maintenance. The Audit Committee carefully considered and discussed with the external auditors the revenue recognition of these contracts in light of the phasing of the licence and maintenance payments, together with the Group's contractual obligations in each contract. These considerations have resulted in further clarity being provided within the accounting policy note for revenue recognition detailed on page 65 in respect of such agreements and the Audit Committee has concluded that they are satisfied with the accounting treatment of these agreements.

In addition, one of the material contracts referred to above includes provision of implementation services on a fixed price basis with fees totalling approximately £1.6 million. The Audit Committee has carefully considered the project effort estimates when assessing the recognition of revenue on this project and concluded that they are satisfied with the accounting treatment.

As part of the Audit Committee's normal activities the Committee was provided with an overview of significant balances, including deferred income, together with the movement on those balances since the previous year end.

The external auditors performed detailed audit procedures on revenue recognition and reported their findings to the Audit Committee. The 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 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 are satisfied with the accounting treatment.

During the year the Committee carried out a formal evaluation of its effectiveness, and concluded that it continued to carry out its role effectively.

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.

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings held in 2016	10	4	9	1
Ivan Martin	10/10	4/4	9/9	1/1
Simon Baines	10/10	4*/4	9*/9	1*/1
Tom Crawford	10/10	4*/4	9*/9	1*/1
Philip Wood	10/10	4*/4	9*/9	1*/1
Peter Bertram	9/10	4/4	8/9	1/1
Peter Whiting	10/10	4/4	9/9	1/1
Martyn Ratcliffe	2/2	1*/1	2*/2	1/1
Vanda Murray	7/7	2/2	6/6	1/1

* attendance by invitation.

The above table details attendance at scheduled meetings as a proportion of the total number of meetings held. Martyn Ratcliffe and Vanda Murray each retired during the year and their attendance is indicated as a proportion of the total number of meetings held during the period until their retirement.

In addition a number of ad hoc meetings were held, including 6 meetings of a sub-committee relating to the exercise of options under the Company's share option schemes.

Management Meetings of the Operating Businesses

Each of the Group's two operating businesses hold management meetings on a monthly basis chaired by the Chief Executive Officer responsible for that business.

Relations with Shareholders

In order to maintain dialogue with institutional shareholders the Chairman and Executive Directors meet with key shareholders. Other directors are available to meet key shareholders on request. 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 Guidance and Transparency Rules is detailed on pages 16 and 17.

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 to 13. 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 2016 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 businesses;
- A procedure for the regular review of business issues and risks by the operating businesses;
- 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 2016, and up to the date of approval of the Annual Report.

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 because the Committee considers that the size and complexity of the Company's business is such that a formal internal audit function is not necessary at this stage. However, the Committee will keep the situation under review.

Corporate Governance
Statement

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE		
	Code of Best Practice – Principles	**Microgen Compliance Statement**
A	**LEADERSHIP**	
1	**The Role of the Board** Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.	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.
2	**Division of Responsibilities** 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.	The Board had an Executive Chairman from 1 January until 4 March 2016 with each of the two operating businesses being the responsibility of an Executive Director. From 4 March 2016 there was a Non-Executive Chairman with the two Executive Directors continuing to be responsible for the running of the two operating businesses.
3	**The Chairman** The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	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.
4	**Non-Executive Directors** As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	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, Chief Executive Officers or Chief Financial Officer fails to resolve or for which such contact is inappropriate. The Chairman holds meetings with the non-executive directors without the Executive Directors 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. Peter Bertram has served on the board for more than 9 years since his appointment in October 2006 and is therefore not treated as independent for the purposes of the Code. The Board considered it important (following the retirement of Martyn Ratcliffe as Executive Chairman in March 2016) for Peter Bertram to continue in his role until the 2017 Annual General Meeting, in order to provide continuity and stability during the initial period of Ivan Martin's new chairmanship. That transition was implemented successfully during 2016 and Peter Bertram will be retiring from the Board with effect from the close of the Company's Annual General Meeting in April 2017. 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 must provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.
B	**EFFECTIVENESS**	
1	**The Composition of the Board** 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.	As stated on page 21 Peter Bertram is not treated as being independent for the purposes of the Code because he has served on the Board for more than 9 years. However, notwithstanding this, all of the non-executive directors (including Peter Bertram) 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 judgment. The Board has included at least two independent non-executive directors (including the non-executive Chairman) at all times during 2016. Peter Bertram will step down as a non-executive director following the Company's AGM on 24 April 2017.
2	**Appointments to the Board** There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	A separate Nomination Committee, comprising all the non-executive directors (including the Non-Executive Chairman), is responsible for identifying and nominating candidates to fill Board vacancies. A disclosure in relation to the composition of the Nomination Committee under Code Provision B.2.1 is set out on page 21.
3	**Commitment** All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	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.
4	**Development** All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	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.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (continued)		
	Code of Best Practice – Principles	**Microgen Compliance Statement**
B	**EFFECTIVENESS**	
5	**Information and Support** 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.
6	**Evaluation** 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 Executive Directors receive an annual performance appraisal as part of the Management Bonus Scheme. The performance of each Board Committee is reviewed on an annual basis.
7	**Re-election** 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 the reasons 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.
C	**ACCOUNTABILITY**	
1	**Financial and Business Reporting** 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.
2	**Risk Management and Internal Control** 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.
3	**Audit Committee and Auditors** 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.	Subject to the disclosure on Code Provision C.3.1 set out on page 21, the Audit Committee consists of all non-executive directors and meets at least three times a year. Executive Directors were invited to attend in 2016 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.
D	**REMUNERATION**	
1	**The Level and Components of Remuneration** 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.
2	**Procedure** 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. Executive Directors were invited to attend the Committee's meetings in 2016. However, no director was present during a discussion of his remuneration. A disclosure in relation to the composition of the Committee under Code Provision D.2.1 is set out on page 21.
E	**RELATIONS WITH SHAREHOLDERS**	
1	**Dialogue with Shareholders** 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 Executive Directors meet with key shareholders. After the release of the 2016 results the Chairman and the Executive Directors will meet key shareholders as appropriate. Non-executive directors are available to meet institutional shareholders if requested.
2	**Constructive Use of General Meetings** 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 2016. This report summarises the Committee's decisions in relation to directors' remuneration and sets out the details of changes which have been made since the Committee's previous report. In particular, during the course of 2016 the Company adopted a new Performance Share Plan (to replace the previous plan that expired during the year) and a new Save As You Earn Scheme open to all qualifying employees. The Company is seeking shareholder approval for these new arrangements at the 2017 Annual General Meeting and a summary of the principal terms of each of them is included in the Notice of AGM. In addition, a new Directors' Remuneration Policy is being proposed for shareholder approval as explained further in the section below.

Our new Directors' Remuneration Policy

Our Directors' Remuneration Policy was first approved at the Annual General Meeting in 2014. In accordance with the applicable legislation, we are seeking shareholder approval for a new policy at the 2017 Annual General Meeting. The differences between the policies are summarised in the introduction to the proposed Directors' Remuneration Policy on page 32. The Committee considers that the overall structure of our directors' remuneration arrangements support the delivery of our strategy. Accordingly, the new policy has been formulated taking into account developments since 2014 but is not a radical overhaul of the existing policy. The changes proposed finesse the existing policy, reflect the introduction of the new performance share plan (replacing the plan which expired during 2016), and ensure we have sufficient flexibility to take appropriate remuneration decisions over the next three years.

Group performance and variable pay outturns in respect of 2016

The overall performance of the Group in 2016 is discussed in the Strategic Report on pages 2 to 8. Reflecting that performance, the Executive Directors earned bonuses for 2016 of between 50.0% and 92.5% of salary based on performance measures aligned to the Group's strategy. Further information is given on page 43.

In 2016 the first of the performance share plan awards granted following approval at the 2013 general meeting vested. The vesting outcome reflects the strong performance against the TSR performance measure over the vesting period. Further information is given on page 45.

Our approach to Executive Director remuneration in 2017

In the Annual Report on Remuneration on page 42 we set out how we will apply the new policy in respect of 2017. Executive Director salaries have been increased with effect from 1 January 2017 by 3%, reflecting wider workforce increases. The overall maximum bonus opportunity will remain at 100% of salary; reflecting the new policy, 75% of the opportunity will be based on financial performance measures and 25% on non-financial measures linked to the delivery of the Group's key strategic goals.

Long term incentives

Awards are proposed to be granted under the new performance share plan for which approval is to be sought at the 2017 AGM. Awards will be at the level of up to 100% of salary. The vesting of awards will be subject to the achievement of stretching performance conditions and in accordance with Microgen's usual approach, measures and targets will be determined prior to grant (and disclosed at grant and in the 2017 Directors' Remuneration Report).

Reporting and policy requirements

There follows below:

- Part A being the Directors' Remuneration Policy, which sets out our forward-looking remuneration policy for Directors and will be subject to a binding vote at the 2017 Annual General Meeting. Subject to that vote, it will come into force with effect from the close of that meeting; and
- Part B being the Annual Report on Remuneration, which provides details of the amounts earned by Directors in respect of the year ended 31 December 2016 and how the Directors' Remuneration Policy will be operated for the year commencing 1 January 2017. This will be subject to an advisory vote at the 2017 Annual General Meeting.

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) Regulations 2008 (as amended). 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.

THIS PART OF THE REPORT SETS OUT THE COMPANY'S DIRECTORS' REMUNERATION POLICY, WHICH, SUBJECT TO SHAREHOLDER APPROVAL AT THE 2017 ANNUAL GENERAL MEETING, SHALL TAKE BINDING EFFECT FROM THE CLOSE OF THAT MEETING.

A. DIRECTORS' REMUNERATION POLICY ("POLICY")

This part of the Report sets out the Company's Directors' Remuneration Policy, which, subject to shareholder approval at the 2017 Annual General Meeting, shall take binding effect from the close of that meeting. This part of the Report is unaudited.

Details relating to how the remuneration policy was implemented during the year ended 31 December 2016 are set out below in Part B as this Part A sets out the remuneration policy of the Company going forward.

At the Annual General Meeting held on 28 April 2014, shareholders approved our first Directors' Remuneration Policy under the new statutory regime, with approximately 87% of the votes cast in favour of it. The Company is now required to seek approval for a new Directors' Remuneration Policy, and this will be sought at the 2017 AGM. There are no significant differences between the Policy proposed for approval at the 2017 AGM and the policy approved in 2014. However, the Remuneration Committee proposes minor changes to ensure that the new Policy reflects best practice and developments since 2014 and is appropriate for the Company going forwards. In summary, the differences between the policy approved in 2014 and the new Policy are:

- To reflect developing best practice, we have formally included our shareholding requirement and malus and clawback within the policy;
- We have included within the policy the new share plans for which approval is sought at the 2017 AGM, including the ability to deliver "dividend equivalents" under the new performance share plan in accordance with usual practice;
- To ensure the policy is appropriate for the next three years we have included flexibility to pay a salary supplement in lieu of a pension contribution and to make "buy-out" awards on recruitment; and
- Other changes have been made as a consequence of the changes referred to above or otherwise to ensure there is sufficient flexibility to take appropriate remuneration decisions over the next three years.

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:

- Ensure remuneration arrangements support the Group's business strategy;
- Align interests of directors and senior executives with those of the shareholders;
- Determine remuneration by reference to individual performance, experience and prevailing market conditions, with a view to providing a package appropriate to the responsibilities involved;
- Encourage behaviours which will enhance the performance of the Group and reward achievement of the Group's strategic and financial goals;
- Ensure that an appropriate proportion of the overall remuneration package is incentive pay, which is earned for the delivery of stretching performance conditions.

Executive Directors' Policy Table

The following policy will apply to any remuneration payment or loss of office payment made to an Executive Director following the Company's Annual General Meeting on 24 April 2017.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Basic salary 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	Basic salaries are ordinarily 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 reviewed when an individual changes roles or responsibilities.	While no maximum salary level has been set, salary increases will typically be in line with the increases awarded to other employees in the Group (in percentage of salary terms). In appropriate circumstances, increases of a higher amount may be made taking into account individual circumstances such as: • an increase in scope or responsibility of the individual's role; • development of the individual within the role (including enhanced performance); • alignment to market level; and • a change in the size or complexity of the business.	None, although overall performance of the individual will be taken into consideration by the Committee when setting and reviewing salary levels.
Retirement benefits To provide an opportunity for executives to build up income on retirement	All Executive Directors are eligible to participate in the Group Personal Pension Scheme. In appropriate circumstances, Executive Directors may receive a cash allowance in lieu of a pension contribution, or a combination of a pension contribution and a cash allowance.	*Pension contribution* 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. *Cash allowance* The maximum cash allowance (after deducting any employer pension contribution) is 6% of basic salary.	None. Not performance related.
Benefits To provide market-competitive benefits	Executive Directors receive benefits which consist primarily of income protection in the event of long-term ill health, private healthcare insurance and death-in-service benefits. Other benefits may be provided based on individual circumstances, such as relocation and travel expenses.	No maximum value of benefits has been set as benefits vary by role. However, the level of benefits provided is set at a level which the Committee considers to be sufficient based on the role and individual circumstances.	None. Not performance related.
Management Bonus Scheme To incentivise and reward strong performance against financial and non-financial annual targets, thus delivering value to shareholders	The Committee assesses actual performance compared to the performance targets following the completion of the financial year and determines the bonus payable to each individual. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. Bonuses are payable in cash. Bonuses are subject to clawback provisions as referred to below the table.	The maximum annual opportunity is 100% of salary.	Performance measures and targets (and their weightings where there is more than one measure) are set by the Committee on an annual basis to reflect the Company's strategic priorities. At least 75% of the opportunity will be based on key financial measures, and the balance will be based on non-financial measures. *Financial measures* Up to 50% of the maximum payable in respect of a financial measure will be paid for on target performance, increasing to 100% for stretch performance. *Non-financial measures* Vesting in respect of any non-financial measure will be between 0% and 100% based on the Committee's assessment of the extent to which the relevant measure is achieved. Vesting in respect of any non-financial measure will ordinarily be subject to the satisfaction of a financial performance underpin.

Executive Directors' Policy Table (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Performance Share Plan 2016 (2016 PSP) To drive sustained long-term performance that supports the creation of shareholder value.	The 2016 PSP is used to provide a meaningful reward to senior executives linked to the long-term success of the business, by delivering annual awards in the form of nil (or nominal)-cost options, conditional awards of shares or such other form as has the same economic effect. Awards will be granted subject to performance conditions, assessed over a period of at least three years, The number of shares subject to awards under the 2016 PSP may be increased to take account of dividends that would have been paid on vested shares up to the date of vesting (calculated assuming the reinvestment of any such dividends into additional shares on a cumulative basis). Awards under the 2016 PSP are subject to malus and clawback provisions as referred to below the table. The Committee may, at its discretion, structure awards as Qualifying PSP awards comprising both a tax qualifying option and an ordinary PSP award, with the ordinary PSP award scaled back at exercise to take account of any gain made on the exercise of the tax qualifying option.	The 2016 PSP provides for awards of up to a maximum limit of 100% of basic salary in respect of any financial year of the Company. In exceptional circumstances (such as on the recruitment of a new Executive Director) awards in respect of any financial year may be granted at the level of up to 200% of salary. Where an award is granted as a Qualifying PSP Award, the shares subject to the tax qualifying option are not taken into account for the purposes of these limits, reflecting the "scale back" referred to in the "Operation" column.	Vesting of 2016 PSP awards is subject to continuous employment and performance against demanding performance measures. Awards made under the 2016 PSP will have a performance period of at least three years and will vest following the assessment of the performance conditions or on such later date as the Committee determines. If no entitlement has been earned at the end of the relevant performance period, the awards will lapse.
Save As You Earn Scheme 2016 To give all employees in the Group the opportunity to buy shares.	All qualifying employees and executive directors of the group are invited to participate on the same basis. Awards in the UK must comply with certain legislative requirements to benefit from beneficial tax treatment.	Employees can save up to £500 per month (or such higher amount as is permitted under the relevant legislation) for a three or five year period, and can then use those savings to acquire shares at the end of the period at an exercise price set at the start of the savings contract at a discount of up to 20% to the market value of a share (or such higher percentage as is permitted under the applicable legislation).	None. Not performance related.

Notes to the Policy Table

Selection of performance measures

The performance measures under the Management Bonus Scheme and 2016 PSP are selected to reflect the main KPIs and strategic priorities for the Group and operating businesses. 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.

Performance conditions applying to subsisting awards may be amended or substituted by the Committee if an event occurs (such as a change in strategy, a material acquisition or divestment of a Group business or a change in prevailing market conditions) which causes the Committee to determine that the measures are no longer appropriate and that amendment is required in order that they achieve their original purpose.

Operation of share plans

The Committee has discretion to operate the Company's share plans (including the 2016 PSP and the Save As You Earn Scheme 2016) in accordance with their terms, including the ability to settle awards in cash and to adjust the terms of awards in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other relevant event.

Shareholding guidelines

The Company expects Directors and senior employees when acquiring shares under the 2016 PSP (or the former performance share plan) not to dispose of more than fifty per cent (50%) of the shares acquired until the day on which his or her holding has a market value equal to that of his or her basic salary. Any shares that are sold to discharge the option holder's fiscal obligations are not treated as having been acquired.

Malus and clawback

For up to two years following the payment of a bonus under the Management Bonus Scheme, the Committee may require repayment of some or all of any bonus payment in circumstances which the Committee considers appropriate, including a material misstatement of accounts, an error in assessing performance conditions, or misconduct on the part of the participant.

For up to two years after the vesting of an award under the 2016 PSP the Committee may cancel an award or require the participant to make a payment to the Company in respect of an award in the event of gross misconduct, fraud, malpractice, a material misstatement of results, a material breach of risk management or other circumstances that, in the opinion of the Committee have a sufficiently significant impact on the reputation of any Group business. Where an award is granted as a Qualifying PSP Award, malus and clawback will apply to the tax qualifying option to the extent permitted by the applicable legislation.

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 policy will apply to any remuneration payment or loss of office payment made to a Non-Executive Director on or after the Company's Annual General Meeting on 24 April 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	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. The fees paid to the Non-Executive Directors are determined by the Board. Fee levels are determined by reference to fees paid to Non-Executive Directors in similar sized businesses and the expected time commitment and complexity of the role. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans or pension arrangements. Non-Executive Directors may be eligible to receive benefits such as the use of secretarial support, travel costs and other benefits that may be considered appropriate.	Non-Executive Director fees are typically reviewed by the Board every year with any adjustments effective 1 January of the following financial year. 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. The maximum aggregate fees for all Non-Executive Directors will remain within the limit permitted by the Company's Articles of Association from time to time.	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 2016 PSP, and are eligible to receive option grants. Under normal conditions, performance conditions are consistent for all participants, while award sizes vary by organisational level. All qualifying employees are offered the opportunity to save and buy shares through the Save As You Earn Scheme 2016 up to the same maximum level (or substantially equivalent maximum level for employees outside the UK), thus giving them the opportunity to be shareholders. However, the executive directors do not currently intend to participate in the Save As You Earn Scheme 2016.

Illustrations of the application of the Executive Directors' Remuneration Policy

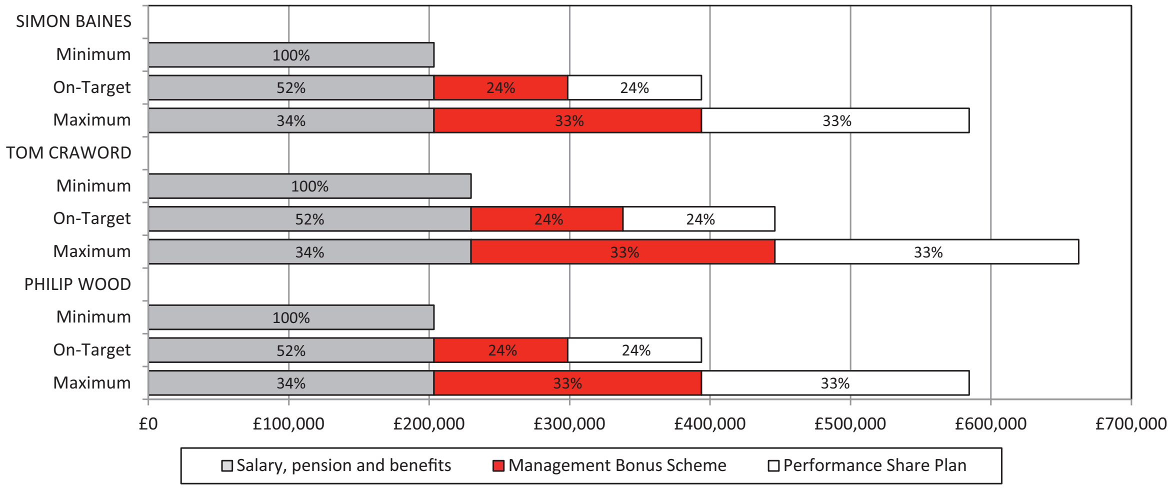
The following chart sets out an illustration in line with the Policy for the Executive Directors set out above and provides an estimate of the potential remuneration in 2017 for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum'.

Potential reward opportunities are based on the Policy, taking into account basic salaries applying with effect from 1 January 2017 and the 2016 benefits figure from the single total figure of remuneration table on page 43. Note that the projected values exclude the impact of share price movement and the payment of dividends 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 50% of salary from the Management Bonus Scheme. In this scenario it is assumed that the Executive Directors are granted 2016 PSP awards of a value equivalent to 100% of their basic salary with 50% of the maximum ultimately vesting.

The ‘maximum’ scenario reflects fixed remuneration as above plus a payout of 100% of salary from the Management Bonus Scheme. In this scenario it is assumed that the Executive Directors are granted 2016 PSP awards of a value equivalent to 100% of their basic salary with the full award ultimately vesting.



Approach to Recruitment of Directors

Executive Directors

When hiring a new Executive Director, or promoting to the Board from within the Group, the Committee will typically align the package with the above Policy. The Committee may, in order to secure the services of a candidate with the suitable skills to execute the Company’s strategy, include other elements of pay; however, this discretion is capped and subject to the principles set out below. The maximum level of variable remuneration that may be granted (excluding any “buy-out” award as referred to below) is 300% of salary (assuming a 100% of salary annual bonus, and a PSP award at the exceptional limit of 200% of salary, which would only be awarded where necessary to secure a candidate of appropriate quality and experience). 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**
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 a market competitive level, it may be increased to a market competitive rate over such period as the Committee determines, subject to their development in the role
Retirement benefits	Retirement benefits will be determined in accordance with the policy table above.
Benefits	Benefits will be determined in accordance with the policy table above, and may include relocation, travel and subsistence payments in appropriate circumstances.
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
Performance Share Plan 2016	New appointees who have been invited to participate in the 2016 PSP will be granted awards under the 2016 PSP, as described in the policy table. In accordance with the policy table and the rules of the 2016 PSP, in exceptional circumstances in order to enable the Company to recruit an executive with the experience and skills to execute the Company’s strategy, awards may be granted up to the level of 200% of salary.
Save As You Earn Scheme	New Appointees will be invited to participate in the SAYE Scheme on the same basis as other employees and executive directors.

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.

An Executive Director may be recruited at a point in a financial year when it would be inappropriate to provide a bonus or long term incentive award for that year (for example, because there would not be sufficient time to assess performance). In these circumstances, subject to the limit on variable remuneration set out above, the quantum of that Executive Director's bonus or long term incentive award in respect of the months employed during that financial year may be transferred to the subsequent financial year so that the Executive Director is rewarded on a fair and reasonable basis.

The Committee may alter the performance measures and weightings and vesting period of the Management Bonus Scheme and long term incentive award if the Committee considers that the circumstances of the recruitment merit such an alteration – the rationale will be clearly explained in a subsequent Directors' Remuneration Report.

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. The Committee will generally seek to structure any buy-out awards or payments on a comparable basis to the forfeited arrangements and to limit any such award to the expected value of the forfeited arrangements.

Share awards will be granted under the Company's existing share plans as far as possible, but the Company may adopt additional arrangements as permitted by the Listing Rules to facilitate the recruitment of an Executive Director.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 35. 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**
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

* Simon Baines and Tom 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
Management Bonus Scheme	
Retirement, ill-health, disability, death, redundancy or other reasons at the discretion of the Committee	The Committee may consider it appropriate to award a bonus depending on the relevant termination scenario. The payment of any bonus will be subject to the satisfaction of the relevant performance conditions and will ordinarily be reduced to reflect the proportion of the bonus year for which the Executive Director was in service (although the Committee has discretion to waive this time based reduction). Any such bonus will typically be paid following the end of the bonus year, although the Committee retains discretion to pay the bonus at the date of cessation (and to assess performance conditions accordingly).
Other reason	Awards lapse on the date of termination.
Performance Share Plan 2016	
Death	Awards can be exercised within 12 months from the date of death (or, if the Committee so decides, from the ordinary vesting date) on a pro-rata basis and to the extent that performance conditions have been met (as assessed by the Committee where awards vest before the end of the original performance period). However, the Committee reserves the right to disapply pro-rating
Ill-health, disability, or redundancy, or any other reason at the discretion of the Committee	Awards will ordinarily continue and can be exercised within 6 months from the ordinary vesting date on a pro-rata basis and to the extent that performance conditions have been met. However, the Committee reserves the right to disapply pro-rating and to vest the award at the date of cessation (and to assess performance conditions accordingly) depending on the circumstances
Other reason	Awards lapse on the date of termination.
Save As You Earn 2016	
Death	Options can be exercised within 12 months from the date of death (or 12 months after the end of the savings contract, if earlier)
Retirement, injury, disability, redundancy, sale of the participant's employer out of the group	Options can be exercised within 6 months from the date of cessation of employment, but only to the extent that savings have been made
Any other reason more than three years after grant	Options can be exercised within 6 months from the date of cessation of employment, but only to the extent that savings have been made
Any other reason	Options lapse.

Change of control

Awards under the 2016 PSP may vest early on the change of control or other relevant event, or awards may be exchanged for awards in a new company. Where awards vest, they can be exercised on a pro-rata basis and to the extent that performance conditions have been met (as assessed by the Committee), although the Committee reserves the right to disapply pro-rating. Options under the Save As You Earn 2016 may vest early in the event of a change of control to the extent permitted by the rules of the scheme (or may be exchanged for new options), which do not permit the exercise of discretion as to the treatment on change of control.

Other payments

In appropriate circumstances, payments may also be made in respect of accrued holiday, legal fees and outplacement services. The Committee reserves the right to make any other payments in connection with a director's cessation of office of employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation.

Non-Executive Directors' Terms of Appointment

Subject to re-election by shareholders in accordance with the Company's Articles of Association, 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	30 April 2017
Peter Whiting **	2 February 2012	30 April 2017
Barbara Moorhouse (to be appointed 1 April 2017)***	27 February 2017	30 April 2020

* As previously announced, Peter Bertram will retire from the Board at the 2017 Annual General Meeting.
** Peter Whiting is standing for re-election at the 2017 Annual General Meeting. If he is re-elected his agreement will be extended for a further term of 3 years.
*** Subject to the re-election of Barbara Moorhouse at the 2017 AGM. If she is re-elected her agreement will be extended for a further term of 3 years.

Legacy arrangements

The Committee reserves the right to make any remuneration payment and/or payment for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

1. before the Policy came into effect (and, in the case of a payment agreed on or after 28 April 2014, where the terms of the payment are in line with the policy approved at the 2014 AGM);

2. at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes, the term "payment" includes the satisfaction of awards of variable remuneration and in relation to an award over shares the terms of the payment are agreed at the time the award is granted. For the avoidance of doubt, this includes the ability to satisfy any awards granted under the Company's 2006 Performance Share Plan, and to exercise discretion under that plan in respect of any such awards.

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.

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 2016. The sections of the report which are audited are clearly identified as such in the section heading.

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;
- 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 2016

The membership of the Remuneration Committee as at 31 December 2016 comprised Peter Whiting (Committee Chair), Peter Bertram and Ivan Martin. Barbara Moorhouse will join the Remuneration Committee on her appointment to the Board on 1 April 2017.

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 9 meetings during the financial year and details of members' attendance at meetings are provided in the Corporate Governance section on page 26.

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 2016 and the prior year.

	Simon Baines*		Tom Crawford*		Philip Wood		Martyn Ratcliffe*	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£	£	**£**	£	**£**	£	**£**	£
Basic salary	**185,000**	174,700	**210,000**	199,700	**185,000**	174,700	**20,833**	199,375
Taxable benefits**	**1,316**	2,219	**526**	2,720	**1,316**	2,534	**–**	–
Pension***	**10,596**	9,669	**12,096**	11,169	**10,596**	9,669	**–**	–
Management Bonus****	**92,500**	79,114	**194,250**	67,870	**148,000**	66,600	**–**	–
Long Term Incentives*****	**852,241**	–	**852,241**	–	**852,241**	–	**–**	–
Total	**1,141,653**	265,702	**1,269,113**	281,459	**1,197,153**	253,503	**20,833**	199,375

* Simon Baines and Tom Crawford joined the board on 1 January 2016. Martyn Ratcliffe retired from the Board on 4 March 2016.

** Taxable benefits consist primarily of private healthcare insurance and car fuel benefits. Car fuel benefits ceased to be paid at the end of December 2015.

*** The Company paid £12,096 on behalf of Tom Crawford (2015: £11,169) and £10,596 on behalf of Philip Wood (2015: £9,669) into a self-invested personal pension scheme.

**** Payment for performance during the year under the Management Bonus Scheme – further information is given below.

***** Includes PSP awards vesting in respect of a performance period ending in the year ending 31 December 2016 – further information is given below.

Non-Executive Directors

The table below sets out a single figure for the total remuneration received by each Non-Executive Director (including Ivan Martin, Non-Executive Chairman) for the year ended 31 December 2016 and the prior year:

	Peter Bertram		Vanda Murray		Ivan Martin**		Peter Whiting	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£	£	**£**	£	**£**	£	**£**	£
Basic salary	**40,000**	40,000	**21,844**	40,000	**125,000**	–	**40,000**	40,000
Committee fees	**7,500**	7,500	**2,169**	6,500	**–**	–	*****6,958**	–
Other fees*	**–**	–	**–**	20,000	**–**	–	**–**	–
Total	**47,500**	47,500	**24,013**	66,500	**125,000**	–	**46,958**	40,000

* The other fee paid in 2015 to Vanda Murray was due to the increased time requirement pursuant to the recruitment of a new Chairman for the Group. Vanda Murray retired from the Board on 18 July 2016

** Ivan Martin was appointed to the Board on 1 January 2016.

*** Peter Whiting's Committee fees consist of £4,458 in respect of his Chairmanship of the Remuneration Committee with effect from 25 April 2016 and £2,500 in respect of his holding the office of Senior Independent Director from 18 July 2016.

Incentive outcomes for the year ended 31 December 2016 (audited)

Management Bonus Scheme in respect of 2016 performance

The 2016 Management Bonus Scheme for Executive Directors is determined by the Committee by reference to the Group's financial performance (as regards 50% of the opportunity) and the achievement by each Executive Director of non-financial performance measures (as regards 50% of the opportunity) during 2016. The maximum bonus opportunity for each Executive Director (other than Martyn Ratcliffe who did not participate in the Management Bonus Scheme) was 100% of salary.

Financial performance measures (50% of the bonus opportunity)

Executive Director	Measure	Weighting	Threshold performance level	On-target performance level	Stretch performance level	Actual performance level	Bonus earned (% of salary)
Simon Baines	Operating profit (pre-bonus accrual)	50% of the financial measures opportunity	£7.2m	£7.4m	£7.8m	£7.4m	12.5% of salary
	Quantum of acquired revenue (annualised)	50% of the financial measures opportunity	£1.0m	£2.0m	£3.0m	Less than £1.0m	0% of salary
Tom Crawford	Recurring revenue base	100% of the financial measures opportunity	£10.3m	£10.5m	£11.0m	£12.6m	50% of salary

Reflecting his Group-wide position, Philip Wood's bonus in respect of the financial performance measures was calculated as an average of the percentage bonus earned by Simon Baines and Tom Crawford, and accordingly Philip Wood earned a bonus of 31.25% of salary in respect of financial performance measures.

Non-financial performance measures (50% of the bonus opportunity)

In respect of the bonus payable for the achievement of non-financial measures, the performance of each executive director was assessed against a number of metrics under the broad headings of Good Business Practice and The Future Perspective of the Business. The particular metrics used varied for each of the directors, but included: contractual terms agreed with new clients; sales pipeline development; customer satisfaction; product development; new markets opened; and debt collection. Following this assessment, the Committee determined that the bonuses earned were as follows:

Executive Director	Bonus earned (% of salary)
Simon Baines	37.50%
Tom Crawford	42.50%
Philip Wood	48.75%

Accordingly, the overall bonuses earned were

Executive Director	Bonus earned (% of salary)	Bonus earned
Simon Baines	50.0%	£92,500
Tom Crawford	92.5%	£194,250
Philip Wood	80.0%	£148,000

As set out above, the Committee has decided that, with effect from 1 January 2017, the assessment against financial measures will account for 75% of the total bonus opportunity (increased from 50%), with non-financial measures accounting for 25% (decreased from 50%). The Committee has also agreed a specific list of objectives with each of the Executive Directors, and will publish retrospectively its assessment of performance against each of these metrics in future.

PSP awards vesting in respect of performance in 2016

Each of Simon Baines, Tom Crawford and Philip Wood were granted an award on 18 November 2013 under the Company's 2006 Performance Share Plan, which vested on 25 November 2016. Each Executive Director held an award over 500,000 shares. The value included in the single figure table is based on the value of the vested shares, calculated as the share price on the date of vesting (£1.78) less the per share exercise price of £0.05.

Shares subject to award	Vesting percentage*	Vested shares	Value
500,000	98.525%	492,625	£852,241

* 50% of the awards vested subject to continued employment and 50% had a Total Shareholder Return ("TSR") performance condition. The Company's financial performance over the relevant period was such that the options which were subject to the TSR performance condition vested to the extent of 97.05% of the total possible amount. Accordingly 98.525% of the 2013 Share Option Awards vested on 18 November 2016. 65% of the vested share options became capable of exercise on 20 November 2016 and the remaining 35% will become capable of exercise in November 2018.

Share awards granted during the year (audited)

On 3 August 2016 share options under the Performance Share Plan 2016 were awarded to the Executive Directors. Each award was granted in the form of an option with an exercise price of 6 3/7 pence per share and the basis of the award was 200% of salary. This is above the anticipated level of on-going grants (which will be up to 100% of salary in accordance with the table on pages 33 to 34) due to the developments in both the Group and its Board in 2016. The options were granted under the authority received at the General Meeting held on 18 November 2013 as follows:

Executive Director	Number of shares subject to award	Basis of award	Face value of award*	% of award vesting for threshold performance
Simon Baines	191,710	200% of salary	£370,000	50%
Tom Crawford	217,617	200% of salary	£420,000	50%
Philip Wood	191,710	200% of salary	£370,000	50%

*Based on a share price on 2 August 2016 of £1.93.

The vesting of these options is subject to the satisfaction of a performance condition based on the Company's Total Shareholder Return measured over a three year performance period beginning on 3 August 2016, as follows:

Percentage of option vesting	TSR performance
50%	(1) The Company's TSR over the performance period is not negative.
	(2) The Company's TSR at least matches the performance of the FTSE Fledgling Index over the performance period.
100%	(1) The Company's TSR over the performance period is at least 10%.
	(2) The Company's TSR outperforms the FTSE Fledgling Index by at least 25% over the performance period.

For these purposes, the Company's TSR will be calculated by reference to the Company's average closing share price over the 10 business days before the date of grant and ending on the last day of the performance period.

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 2017 (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. The 3% increase awarded is within the range of increases awarded to the wider workforce.

Executive Directors	Basic salary from 1 January 2016	Basic salary from 1 January 2017	Percentage increase
Simon Baines	£185,000	£190,550	3%
Tom Crawford	£210,000	£216,300	3%
Philip Wood	£185,000	£190,550	3%

Management Bonus Scheme

The maximum bonus opportunity for Executive Directors in 2017 will remain unchanged from the opportunity in 2016, and will be a maximum of 100% of salary, with 50% of the maximum paid for on target performance and 100% of the maximum paid for maximum performance.

Bonuses will be based on performance compared to a number of financial metrics (as regards 75% of the overall opportunity) and the achievement of a number of non-financial performance measures set for the year (as regards 25% of the overall opportunity). The financial metrics include operating profit and a number of the KPIs of each operating business. The non-financial performance measures will be subject to financial underpin.

Long-term incentives

Awards under the 2016 PSP will be granted to Executive Directors in 2017. The awards will be granted at the level of up to 100% of salary in accordance with the policy table. Performance measures and targets will be set prior to the grant to reflect the Company's strategic priorities and ensure that full vesting is only achieved for delivering stretching levels of performance. The performance measures and targets will be disclosed at grant and set out in the 2017 Directors' Remuneration Report.

Non-Executive Director fees

With effect from 1 January 2017, the basic fee payable to each Non-Executive Director is £42,000 per annum. The fees payable for chairing the Audit and Remuneration Committees are £7,500 and £6,500 per annum respectively. The Senior Independent Non-Executive Director fee is £5,000 per annum.

With effect from 1 January 2017 Ivan Martin, Non-Executive Chairman, will receive a fee of £130,000 per annum.

Percentage change in Executive Directors' remuneration (audited)

The table below shows the percentage change in Executive Directors' remuneration from the prior year compared to the average percentage change in remuneration for all other employees. Please note, however, that Tom Crawford and Simon Baines were appointed to the Board as Executive Directors on 1 January 2016. For the purposes of this disclosure, remuneration comprises salary, benefits (excluding pension) and variable pay paid in the year only.

	Change in remuneration from 2015 to 2016			
	Simon Baines	**Tom Crawford**	**Philip Wood**	**Other employees***
Salary	6%	5%	6%	4%
Taxable benefits	(41%)	(81%)	(48%)	(17%)
Single-year variable	17%	186%	122%	60%

* 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 2015 to the financial year ended 31 December 2016.

	% increase (decrease)	**2016 £000**	2015 £000
Return to shareholders in year	(89%)	**2,540**	22,234
Employee remuneration	36%	**23,005**	16,953

The return to shareholders in 2015 includes £20.1 million in respect of a 'B'/'C' share scheme. Adjusting for this 'B'/'C' share scheme the return to shareholders in 2016 would report an increase of 22%.

Comparison of Company performance (audited)

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 2016. 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.

Value of £100 invested on 31 December 2008

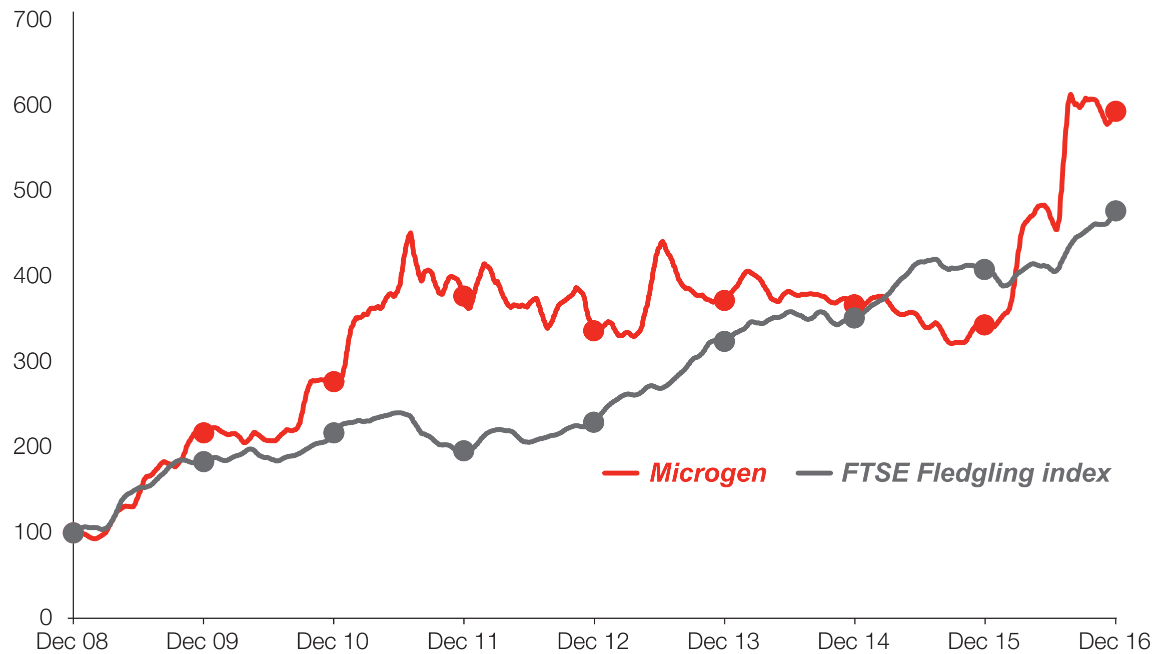


Table of historic remuneration (audited)

The table below details the total remuneration, bonus award as a percentage of maximum opportunity and long term incentive awards vesting as a percentage of maximum opportunity for the Group's senior executive officer for each of years from 2009 – 2016 (inclusive).

Year		Total remuneration	Bonus award as a percentage of maximum opportunity	Long term incentives vesting as a percentage of maximum opportunity
2016	Simon Baines (Chief Executive Officer, Microgen Financial Systems)	£1,141,653*	50.00%	98.53%
	Tom Crawford (Chief Executive Officer, Aptitude Software)	£1,269,113**	92.50%	98.53%
2015	Martyn Ratcliffe (Executive Chairman)***	£199,375	n/a	n/a
2014	Martyn Ratcliffe (Executive Chairman)	£275,000	n/a	n/a
2013	Martyn Ratcliffe (Executive Chairman)	£216,667	n/a	n/a
2012	Martyn Ratcliffe (Executive Chairman)	£205,000	n/a	n/a
2011	Martyn Ratcliffe (Executive Chairman)	£1,096,498****	n/a	100.00%
2010	Martyn Ratcliffe (Executive Chairman)	£252,296	n/a	n/a
2009	Martyn Ratcliffe (Executive Chairman)	£350,931	n/a	n/a

* £852,241 of this amount relates to the vesting, in terms of performance, of awards under the Microgen 2006 Performance Share Plan
** £852,241 of this amount relates to the vesting, in terms of performance, of awards under the Microgen 2006 Performance Share Plan
*** Martyn Ratcliffe was Executive Chairman in 2016 until his retirement on 4 March 2016.
**** £871,700 of this amount relates to the vesting, in terms of performance, of awards under the Group's share option schemes.

Directors' shareholdings and shareholding requirement (audited)

The interests of the current directors and their families in the ordinary shares of the Company as at 31 December 2016 (or, if earlier, the date of their cessation of employment) were as follows:

	Ordinary shares of 6 3/7 pence at 31 December 2016 (or, if earlier, the date of their cessation of employment)	Ordinary shares of 6 3/7 pence at 31 December 2015
Ivan Martin	**200,000**	200,000
Simon Baines	**9,523**	9,523
Tom Crawford	**309,551**	129,551
Philip Wood	**110,635**	110,635
Peter Bertram	**35,794**	35,794
Peter Whiting	**18,666**	18,666
Martyn Ratcliffe (retired 4 March 2016)*	**4,117,963**	4,117,963
Vanda Murray (retired 18 July 2016)	**1,555**	1,555

* Martyn Ratcliffe's shareholding reduced to nil on 11 March 2016.

There have been no changes to directors' shareholdings since 31 December 2016. 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.

Under the rules of the 2006 PSP, a participant may be required to hold at least 50% of the shares that he/she acquires (after sales to cover tax) until his/her holding has a market value equal to his/her base salary. The following table summarises the application of this requirement to the Executive Directors.

	Minimum Shareholding Requirement	**Shareholding at 31 December 2016**
Simon Baines	9,523	9,523
Tom Crawford	76,747	309,551
Philip Wood	32,217	110,635

Directors' interests under Company share plans (audited)

The table below shows the interests of each director who served during 2016 as at 31 December 2016 in the Company's share plans.

Director	Grant	Shares subject to award as at 1 January 2016	Granted in 2016	Exercised in 2016	Lapsed in 2016	Shares subject to awards as at 31 December 2016	Status
Simon Baines	2013*	500,000	–	–	(7,375)	492,625	Vested
	2015**	150,000	–	–	–	150,000	Unvested, subject to performance conditions
	2016***	–	191,710	–	–	191,710	Unvested, subject to performance conditions
		650,000	**191,710**	**–**	**(7,375)**	**834,335**	
Tom Crawford	2013*	500,000	–	(180,000)	(7,375)	312,625	Vested
	2015**	150,000	–	–	–	150,000	Unvested, subject to performance conditions
	2016***	–	217,617	–	–	217,617	Unvested, subject to performance conditions
		650,000	**217,617**	**(180,000)**	**(7,375)**	**680,242**	
Philip Wood	2013*	500,000	–	–	(7,375)	492,625	Vested
	2015**	150,000	–	–	–	150,000	Unvested, subject to performance conditions
	2016***	–	191,710	–	–	191,710	Unvested, subject to performance conditions
		650,000	**191,710**	**–**	**(7,375)**	**834,335**	
Martyn Ratcliffe	2013	2,500,000	**–**	**–**	(2,500,000)	**–**	Martyn Ratcliffe's remaining share options lapsed on his retirement from the board and the cessation of his employment with the Group.
		2,500,000	**–**	**–**	**(2,500,000)**	**–**	

* The awards granted in 2013 vested in 2016 as disclosed on page 45. 65% of the vested shares became capable of exercise on 20 November 2016 and the balance will become capable of exercise in November 2018.

** The awards granted in 2015 are subject to a performance condition based on Total Shareholder Return 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 performance period 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.

*** The awards granted in 2016 are subject to performance conditions as disclosed on page 45.

Advisers (audited)

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. Their total fees for the provision of remuneration services to the Committee in 2016 were £28,500. After careful consideration the Committee is satisfied that the advice provided by Kepler is independent.

With effect from the start of 2017 the Committee has appointed Deloitte LLP to act as its adviser.

Both Deloitte and Kepler are founder members of the Remuneration Consultants Group and adhere to its Code of Conduct for consultants to Remuneration Committees of UK-listed companies, details of which can be found at www.remunerationconsultantsgroup.com.

Statement of Shareholder voting (audited)

At the Annual General Meeting of the Company on 25 April 2016 the results regarding Resolution 2 (to approve the Directors' Remuneration Report for the year ended 31 December 2015) were as follows:

	Total number of votes	**% of votes cast**
For (including discretionary)	44,777,406	93%
Against	3,489,635	7%
Total votes cast (excluding withheld votes)	**48,267,041**	**100%**
Votes withheld	20,366	
Total votes cast (including withheld votes)	**48,287,407**	

At the Annual General Meeting of the Company on 28 April 2014 the results regarding Resolution 3 (to approve the Directors' Remuneration Policy) were as follows:

	Total number of votes	**% of votes cast**
For (including discretionary)	47,866,967	87%
Against	7,264,687	13%
Total votes cast (excluding withheld votes)	**55,131,654**	**100%**
Votes withheld	2,550	
Total votes cast (including withheld votes)	**55,134,204**	

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 8 March 2017 and signed on its behalf by:

Peter Whiting

Chair of the Remuneration Committee

8 March 2017

Independent Auditors'

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 2016 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 2016;

- 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 equity and Company statement of changes in 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 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, and applicable law.

Our audit approach

<u>Overview</u>

Materiality	• Overall Group materiality: £372,000 which represents 4.5% of profit before tax, adjusted for certain items including acquisition related costs and expenses related to share options granted in 2013.
Audit scope	• We conducted an audit of full year financial information for seven reporting units, with specific tests undertaken on a further one reporting unit and at group head office. The reporting units where we performed audit work accounted for 89% of Group revenue, 81% of Group profit before tax and all material balance sheet items.
Areas of focus	• Risk of fraud in revenue recognition – we considered and tested the recognition of revenue from sales of software licences and related services.

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
Risk of fraud in revenue recognition 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 contractual obligations which can be complex. - For revenues recognised on the basis of a defined time period, such as annual licences, we focused on compliance with the contractual terms applicable and the appropriateness of recognition. - For initial or perpetual license fees we focused on the appropriateness of the revenue recognition of these contracts in light of the phasing of the license and maintenance payments, together with the contractual obligations over the life of each contract. We also focused on judgemental deferrals made by management in respect of any unfunded performance obligations. - 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. - For other deferred revenue we focused primarily on the level of completion determined by management, the potential for additional costs and judgemental deferrals by management. - We also focused on non-standard journal entries crediting revenue during the year.	For new software annual licence revenue, we read 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. For new initial or perpetual licenses we read the contractual terms for these contracts. We tested whether the conditions required for initial recognition of licence revenue had been met. We assessed the reasonableness of management's calculations for the deferral of revenue relating to unfunded performance obligations and challenged the extent to which revenue should be deferred to meet the ongoing performance obligations. We have agreed with management that they will assess the level of deferral at each period end. 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. For ongoing software implementation and consulting contracts, we assessed the revenue recognised in light of the stage of completion of the projects, evidence of ongoing disputes, and estimates of costs to complete. We believe the Annual Report appropriately highlights significant judgements made by management. 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.

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 is structured such that the significant majority of the business is comprised of two operating businesses, being Aptitude Software and Microgen Financial Systems. The Group financial statements are a consolidation of 21 reporting units, comprising the Group's operating subsidiaries, overseas branches and centralised Group functions. 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 21 reporting units, we identified seven 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 one further reporting unit and on selected consolidation adjustments made in relation to individually significant balances. These included procedures on the specific financial statement line items shown as non-underlying items, income tax expense, goodwill, intangible assets, 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 89% of Group revenue, 81% 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	£372,000 (2015: £333,000).
How we determined it	4.5% of profit before tax, adjusted for certain items. These include acquisition related costs and expenses related to share options granted in 2013.
Rationale for benchmark applied	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 £18,900 (2015: £16,000) 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.

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 and compliance with applicable requirements

<table>
<tr><td colspan="2">Companies Act 2006 reporting</td></tr>
<tr><td colspan="2">

- In our opinion, based on the work undertaken in the course of the audit:
  - 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; and
  - the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.
  - In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

</td></tr>
<tr><td colspan="2">• ISAs (UK & Ireland) reporting</td></tr>
<tr><td colspan="2">• Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:</td></tr>
<tr><td>

- information in the Annual Report is:
- materially inconsistent with the information in the audited financial statements; or
- 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
- otherwise misleading.

</td><td>We have no exceptions to report.</td></tr>
<tr><td>• 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 position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</td><td>We have no exceptions to report.</td></tr>
<tr><td>• the section of the Annual Report on pages 24 and 25, 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.</td><td>We have no exceptions to report.</td></tr>
</table>

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:	
• 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• 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.	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.

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. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
8 March 2017

Consolidated

Income Statement *for the year ended 31 December 2016*

	Note	Year ended 31 Dec 2016 Before non-underlying items	Non-underlying items	Total	Year ended 31 Dec 2015 Before non-underlying items	Non-underlying items	Total
		£000	£000	**£000**	£000	£000	**£000**
Revenue	1	42,988	–	**42,988**	31,958	–	31,958
Operating costs	1, 2	(33,463)	(1,313)	**(34,776)**	(24,369)	(2,316)	(26,685)
Operating profit	2	9,525	(1,313)	**8,212**	7,589	(2,316)	5,273
Finance income	4	66	–	**66**	104	–	104
Finance costs	4	(397)	–	**(397)**	(492)	–	(492)
Net finance costs		(331)	–	**(331)**	(388)	–	(388)
Profit before income tax		9,194	(1,313)	**7,881**	7,201	(2,316)	4,885
Income tax expense	5	(1,828)	190	**(1,638)**	(1,459)	308	(1,151)
Profit for the year		7,366	(1,123)	**6,243**	5,742	(2,008)	3,734
Earnings per share							
Basic	6			**10.6p**			6.0p
Diluted	6			**10.0p**			5.6p

The accounting policies and notes on pages 64 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement
Of Comprehensive Income *for the year ended 31 December 2016*

	Note	Group Year ended 31 Dec 2016 £000	Group Year ended 31 Dec 2015 £000
Profit for the year		**6,243**	3,734
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value gain on hedged financial instruments	22	**133**	230
Currency translation difference		**95**	(6)
Other comprehensive income for the year, net of tax		**228**	224
Total comprehensive income for the year		**6,471**	3,958

The accounting policies and notes on pages 64 to 107 are an integral part of these consolidated financial statements.

Balance

Sheets *as at 31 December 2016*

	Note	Group As at 31 Dec 2016 £000	Group As at 31 Dec 2015 £000	Company As at 31 Dec 2016 £000	Company As at 31 Dec 2015 £000
ASSETS					
Non-current assets					
Property, plant and equipment	10	**1,330**	928	**–**	–
Goodwill	8	**41,774**	41,774	**–**	–
Intangible assets	9	**7,257**	5,934	**–**	–
Investments in subsidiaries	11	**–**	–	**42,459**	41,849
Deferred income tax assets	12	**738**	561	**–**	–
		51,099	49,197	**42,459**	41,849
Current assets					
Trade and other receivables	13	**8,337**	4,653	**390**	5,332
Financial assets – derivative financial instruments	18	**134**	11	**–**	–
Current tax assets		**–**	–	**18**	18
Cash and cash equivalents	14	**23,849**	18,600	**10,063**	9,085
		32,320	23,264	**10,471**	14,435
Assets classified as held for sale	10	**–**	2,350	**–**	–
Total current assets		**32,320**	25,614	**10,471**	14,435
Total assets		**83,419**	74,811	**52,930**	56,284
LIABILITIES					
Current liabilities					
Financial liabilities					
– borrowings	16	**(3,000)**	(3,000)	**–**	–
– derivative financial instruments	18	**(198)**	(208)	**–**	–
Trade and other payables	15	**(27,847)**	(20,977)	**(7,967)**	(12,386)
Current income tax liabilities		**(100)**	(448)	**–**	–
Provisions	17	**(24)**	(35)	**–**	–
		(31,169)	(24,668)	**(7,967)**	(12,386)
Net current assets		**1,151**	946	**2,504**	2,049
Non-current liabilities					
Financial liabilities – borrowings	16	**(7,250)**	(10,250)	**–**	–
Provisions	17	**(287)**	(240)	**–**	–
Deferred income tax liabilities	12	**(1,316)**	(1,082)	**–**	–
		(8,853)	(11,572)	**–**	–
NET ASSETS		**43,397**	38,571	**44,963**	43,898
SHAREHOLDERS' EQUITY					
Share capital	19	**3,811**	3,796	**3,811**	3,796
Share premium account	20	**4,498**	4,484	**4,498**	4,484
Capital redemption reserve	21	**12,372**	12,372	**12,372**	12,372
Other reserves	22	**34,131**	33,998	**17,398**	17,398
Accumulated losses/ retained earnings	23	**(11,552)**	(16,121)	**6,884**	5,848
Foreign currency translation reserve		**137**	42	**–**	–
TOTAL EQUITY		**43,397**	38,571	**44,963**	43,898

The accounting policies and notes on pages 64 to 107 are an integral part of these consolidated financial statements. The financial statements on pages 58 to 107 were authorised for issue by the Board of Directors on 8 March 2017 and were signed on its behalf by:

Ivan Martin
Director

Philip Wood
Director

Consolidated Statement
Of Changes in Equity

microgen

for the year ended 31 December 2016

	Note	Share capital	Share premium account	Accumulated profits / (losses)	Foreign currency translation reserve	Capital redemption reserve	Other reserves	Total equity
		Attributable to owners of the Parent						
		£000	£000	£000	£000	£000	£000	£000
Group								
Balance at 1 January 2015		**3,730**	**12,049**	**2,553**	**48**	**1,558**	**36,547**	**56,485**
Profit for the year		–	–	3,734	–	–	–	**3,734**
Cash flow hedges								
– net fair value gains in the year	22	–	–	–	–	–	230	**230**
Exchange rate adjustments		–	–	–	(6)	–	–	**(6)**
Total comprehensive income for the year		–	–	3,734	(6)	–	230	**3,958**
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	12	–	–	(44)	–	–	–	**(44)**
Deferred tax on share options	12	–	–	(117)	–	–	–	**(117)**
Corporation tax on share options	23	–	–	51	–	–	–	**51**
Dividends to equity holders of the company	7	–	–	(2,089)	–	–	–	**(2,089)**
Total Contributions by and distributions to owners of the company recognised directly in equity		66	(7,565)	(22,408)	–	10,814	(2,779)	**(21,872)**
Balance at 31 December 2015		**3,796**	**4,484**	**(16,121)**	**42**	**12,372**	**33,998**	**38,571**
Profit for the year		–	–	6,243	–	–	–	**6,243**
Cash flow hedges								
– net fair value gains in the year	22	–	–	–	–	–	133	**133**
Exchange rate adjustments		–	–	–	95	–	–	**95**
Total comprehensive income for the year		–	–	6,243	95	–	133	**6,471**
Shares issued under share option schemes	19-20	15	14	–	–	–	–	**29**
Share options – value of employee service	23	–	–	610	–	–	–	**610**
Deferred tax on financial instruments	12	–	–	(39)	–	–	–	**(39)**
Deferred tax on share options	12	–	–	227	–	–	–	**227**
Corporation tax on share options	23	–	–	68	–	–	–	**68**
Dividends to equity holders of the company	7	–	–	(2,540)	–	–	–	**(2,540)**
Total Contributions by and distributions to owners of the company recognised directly in equity		15	14	(1,674)	–	–	–	**(1,645)**
Balance at 31 December 2016		**3,811**	**4,498**	**(11,552)**	**137**	**12,372**	**34,131**	**43,397**

The accounting policies and notes on pages 64 to 107 are an integral part of these consolidated financial statements.

Company Statement
Of Changes in Equity

for the year ended 31 December 2016

	Note	Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	Total equity £000
		Attributable to owners of the Company					
Company							
Balance at 1 January 2015		**3,730**	**12,049**	**25,645**	**1,558**	**20,177**	**63,159**
Profit for the year	23	–	–	2,501	–	–	**2,501**
Total comprehensive income for the year		–	–	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)**
Total Contributions by and distributions to owners of the company recognised directly in equity		66	(7,565)	(22,298)	10,814	(2,779)	**(21,762)**
Balance at 31 December 2015		**3,796**	**4,484**	**5,848**	**12,372**	**17,398**	**43,898**
Profit for the year	23	–	–	2,966	–	–	**2,966**
Total comprehensive income for the year		–	–	2,966	–	–	**2,966**
Shares issued under share option schemes	19-20	15	14	–	–	–	**29**
Share options – value of employee service	23	–	–	610	–	–	**610**
Dividends to equity holders of the company	7	–	–	(2,540)	–	–	**(2,540)**
Total Contributions by and distributions to owners of the company recognised directly in equity		15	14	(1,930)	–	–	**(1,901)**
Balance at 31 December 2016		**3,811**	**4,498**	**6,884**	**12,372**	**17,398**	**44,963**

The accounting policies and notes on pages 64 to 107 are an integral part of these consolidated financial statements.

Statements
Of Cash Flows *for the year ended 31 December 2016*

	Note	Group Year ended 31 Dec 2016 £000	Group Year ended 31 Dec 2015 £000	Company Year ended 31 Dec 2016 £000	Company Year ended 31 Dec 2015 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	24	**13,032**	7,495	**(161)**	(1,508)
Interest paid		**(397)**	(492)	**–**	–
Income tax paid		**(2,060)**	(1,189)	**–**	4
Net cash flows generated from/ (used in) operating activities		**10,575**	5,814	**(161)**	(1,504)
Cash flows from investing activities					
Dividend received		**–**	–	**3,500**	4,000
Sale of property, plant and equipment		**2,352**	13	**–**	–
Purchase of property, plant and equipment	10	**(894)**	(524)	**–**	–
Acquisition of subsidiaries, net of cash acquired		**(1,430)**	(2,863)	**–**	–
Interest received		**66**	108	**30**	54
Net cash generated from/ (used in) investing activities		**94**	(3,266)	**3,530**	4,054
Cash flows from financing activities					
Net proceeds from issuance of ordinary shares		**29**	536	**29**	536
Dividends paid to company's shareholders	7	**(2,540)**	(2,089)	**(2,540)**	(2,089)
Repayments of loan		**(3,000)**	(3,000)	**–**	–
Return of value to shareholders		**–**	(20,145)	**–**	(20,145)
Sale of fractional shares		**–**	1	**–**	1
Expenses relating to Return of Value		**–**	(175)	**–**	(175)
Amounts lent to group undertakings		**–**	–	**120**	(510)
Net cash used in financing activities		**(5,511)**	(24,872)	**(2,391)**	(22,382)
Net increase/ (decrease) in cash and cash equivalents		**5,158**	(22,324)	**978**	(19,832)
Cash, cash equivalents and bank overdrafts at beginning of year	14	**18,600**	40,896	**9,085**	28,917
Exchange rate gains on cash and cash equivalents		**91**	28	**–**	–
Cash and cash equivalents at end of year	14	**23,849**	18,600	**10,063**	9,085

The accounting policies and notes on pages 64 to 107 are an integral part of these 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 8 March 2017.

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 75 and 76.

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 2016

There are no new standards, and amendments to standards and interpretations which are effective for annual periods beginning after 1 January 2016, 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.

IFRS 16, "Leasing", deals with the recognition, measurement and presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 and applies to periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 is also applied. The Group is assessing the impact of IFRS 16.

None of the other new standards, amendments and interpretations, which are effective for periods beginning after 1 January 2016 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, plus costs directly attributable to the acquisition. 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 form 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 polices 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 Annual Licence Fee, Initial Licence Fee or Perpetual 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; and

– collection of the debt is likely.

Once all of these criteria have been met the recognition of the Annual Licence Fee commences for those clients licenced on an Annual Licence Fee basis. Annual Licence Fees are recognised in the period the services are provided, using a straight-line basis over the term of the licence.

Initial or Perpetual Licence Fees are recognised once all of the above criteria have been met subject to the deferral of revenue in respect of any unfunded performance obligations.

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 required to complete the development. Once the enhancement has been accepted by the customer the deferred portion of the revenue is recognised.

Product specific consultancy

Consultancy services which relate to a project which includes the Group's software is contracted for on either a time and materials or fixed priced basis. Time and materials consultancy is recognised in the period it is performed in. Fixed priced or shared risk work 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 or consultancy.

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.

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 Microgen Financial Systems, the chief operational decision makers for the two businesses are Tom Crawford (Aptitude Software) and Simon Baines (Microgen 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, those 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 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 and expense

Interest is recognised 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 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 79) is shown within non-underlying items. The expense for options granted in 2015 and 2016 are 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. The main overseas balance sheets requiring translation are denominated in US Dollar, Euro and Polish Zloty.

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 and for employees in certain overseas territories. Employee and employer contributions are based on basic earnings for the current year. The schemes are funded by payments to trustee-administered funds 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.

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

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.

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 Euro, 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 2016 was 6 months (2015: 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.

	2016 £000	2015 £000
Polish Zloty gain	**24**	12
South African Rand	**(39)**	(32)
US Dollar loss	**(300)**	(205)
Euro	**(1)**	–
	(316)	(225)

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

(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.

	2016 £000	2015 £000
Increase in interest receivable on cash balances	**150**	196

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.

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 2016 Balance £000	31 December 2015 Balance £000
Bank A	**A3**	**18,702**	12,613
Bank B	**A1**	**1,555**	1,566
Bank C	**A1**	**1,431**	1,548
		21,688	15,727
Customer A	**Baa1**	**1,425**	979
Customer B	**B1**	**751**	334
Customer C	**Ba3**	**678**	295
		2,854	1,608

(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.

At 31 December 2016	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Borrowings	**3,296**	**7,408**	**–**
Derivative financial instruments	**198**	**–**	**–**
Trade and other payables	**26,524**	**–**	**–**
	30,018	**7,408**	**–**

At 31 December 2015	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Borrowings	3,393	3,296	7,408
Derivative financial instruments	208	–	–
Trade and other payables	20,102	–	–
	23,703	3,296	7,408

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.

At 31 December 2016	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Forward foreign exchange contracts			
– cash flow hedges			
Outflow	**(3,782)**	**–**	**–**
Inflow	**3,786**	**–**	**–**
Interest rate swap			
– cash flow hedges			
Outflow	**(296)**	**(158)**	**–**
Inflow	**214**	**114**	**–**
	(78)	**(44)**	**–**

At 31 December 2015	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
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
	(116)	(82)	(44)

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 short term nature and ability to be liquidated at short notice their carrying value approximates their fair value.

Financial instruments measured at fair value

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

	Level 2	
	2016 **£'000**	2015 £'000
Financial Assets		
Derivative financial assets (designated hedge instruments)	**134**	11
	134	11
Financial Liabilities		
Derivative financial liabilities (designated hedge instruments)	**198**	208
	198	208

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 2016.

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) Recognition of revenue

The policy for the recognition of Licence Fees is detailed on page 66. For recognition of Licence Fees to commence a number of criteria need to be met at which point, in respect of Initial or Perpetual Licence Fees, a deferral of revenue may be required in respect of any unfunded performance obligations which will require estimation. Furthermore, for fixed priced development of consultancy projects estimates are required in respect of the percentage completion of each project.

(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.

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 Microgen Financial Systems operating businesses.

The principal activity of the Group throughout 2015 and 2016 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

Year ended 31 December 2016	**Aptitude Software £000**	**Microgen Financial Systems £000**	**Group £000**	**Total £000**
Revenue	26,364	16,624	–	**42,988**
Operating costs	(22,522)	(9,405)	–	**(31,927)**
Operating profit before Group overheads	3,842	7,219	–	**11,061**
Unallocated Group overheads			(1,536)	**(1,536)**
Operating profit before non-underlying items				**9,525**
Non-underlying items	–	(914)	(399)	**(1,313)**
Operating profit/(loss)	**3,842**	**6,305**	**(1,935)**	**8,212**
Net finance income				**(331)**
Profit before tax				**7,881**
Income tax expense				**(1,638)**
Profit for the year				**6,243**

Year ended 31 December 2015	**Aptitude Software £000**	**Microgen Financial Systems £000**	**Group £000**	**Total £000**
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)**
Operating profit/(loss)	**1,664**	**5,039**	**(1,430)**	**5,273**
Net finance income				**(388)**
Profit before tax				**4,885**
Income tax expense				**(1,151)**
Profit for the year				**3,734**

1 **Segmental Information (continued)**

(b) Other information

	Aptitude Software £000	Microgen Financial Systems £000	Group £000	Total £000
Year ended 31 December 2016				
Capital expenditure				
– property, plant and equipment (note 10)	**343**	**437**	**114**	**894**
Depreciation (note 10)	**(307)**	**(182)**	**(112)**	**(601)**

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

(c) Balance sheet

	Aptitude Software £000	Microgen Financial Systems £000	Group £000	Total £000
Year ended 31 December 2016				
Consolidated total assets	**26,405**	**42,576**	**14,438**	**83,419**
Consolidated total liabilities	**(15,331)**	**(22,594)**	**(2,097)**	**(40,022)**
	11,074	**19,982**	**12,341**	**43,397**

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

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

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 2016 £000	Year ended 31 Dec 2015 £000	**Year ended 31 Dec 2016 £000**	Year ended 31 Dec 2015 £000
United Kingdom	**25,886**	18,065	**10,723**	8,918
Rest of World	**17,102**	13,893	**32,265**	23,040
	42,988	31,958	**42,988**	31,958

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 2016 £000	Year ended 31 Dec 2015 £000	**Year ended 31 Dec 2016 £000**	Year ended 31 Dec 2015 £000
United Kingdom	**48,692**	47,282	**586**	320
Rest of World	**1,669**	1,354	**308**	204
	50,361	48,636	**894**	524

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 2016 £000	Year ended 31 Dec 2015 £000
Employee benefit expense (note 3)	**23,005**	16,953
Depreciation (note 10)	**601**	597
Research and development expenditure credit *	**–**	(101)
Other operating costs	**9,857**	6,920
Non-underlying operating costs:		
Amortisation of intangibles	**812**	429
Share based payments on share options issued in 2013	**399**	97
Impairment of freehold property and associated costs of property disposal	**–**	1,585
Acquisition and associated restructuring costs	**102**	439
Customer settlement	**–**	(234)
	34,776	26,685

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

2 **Operating profit (continued)**

Profit from operations has been arrived at after charging:

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Net foreign exchange (gains)/losses	**(314)**	399
Research, development and support costs – Aptitude Software	**4,187**	4,250
Research, development and support costs – Microgen Financial Systems	**3,152**	2,545
Depreciation of property, plant and equipment (note 10)	**601**	597
Operating lease rentals payable:		
– plant and machinery	**25**	26
– other	**1,062**	795
Repairs and maintenance expenditure on property, plant and equipment	**223**	244

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

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements	**95**	103
Fees payable to the Company's auditors and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	**62**	54
– corporation and sales tax services	**54**	147
– overseas secondment services	**125**	108
	336	412

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'. With effect from 1 January 2017 the Company's auditor are no longer providing overseas secondment, corporation and sales tax services to the Group.

A description of the work of the Audit Committee is included in the corporate governance statement on pages 24 and 25 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

3 Employees and directors

	Group Year ended 31 Dec 2016 £000	Group Year ended 31 Dec 2015 £000
Employee benefit expense during the year		
Excluding non-underlying costs		
Wages and salaries	**20,468**	15,131
Social security costs	**1,721**	1,326
Other pension costs (note 28)	**605**	483
Share based payment costs on share options issued in 2016 (note 27)	**211**	13
	23,005	16,953
Non-underlying share based payment cost on share options issued in 2013 (note 27)	**399**	97
	23,404	17,050

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

	Group Year ended 31 Dec 2016 Number	Group Year ended 31 Dec 2015 Number
By location:		
United Kingdom	**126**	113
Rest of World	**159**	140
	285	253

Headcount at 31 December 2016 was 312 (2015: 257).

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Key management compensation:		
Short-term employee benefits	**2,339**	2,322
Post employment benefits	**73**	74
Share based payment	**449**	21
	2,861	2,417

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

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Directors		
Aggregate emoluments	**1,282**	597
Company contributions to money purchase pension scheme	**33**	10
	1,315	607

3 Employees and directors (continued)

Average monthly number of directors and senior executives were 12 (2015: 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 30 to 51.

4 Net finance income

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Finance income		
Interest on bank deposits	**65**	102
Interest on Corporation Tax	**1**	2
	66	104
Finance cost		
Interest payable on bank borrowings	**(397)**	(492)
	(397)	(492)
Net finance income	**(331)**	(388)

5 Income tax expense

Analysis of charge in the year	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Current tax:		
– tax charge on underlying items	**(1,862)**	(1,416)
– tax credit non-underlying items	**–**	117
– adjustment to tax in respect of prior periods	**7**	(17)
Total current tax	**(1,855)**	(1,316)
Deferred tax (note 12):		
– tax charge on underlying items	**(3)**	(27)
– tax credit on non-underlying items	**190**	191
– adjustment to tax in respect of prior periods	**30**	1
Total deferred tax	**217**	165
Income tax expense	**(1,638)**	(1,151)

UK corporation tax is calculated at 20.00% (2015: 20.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

As Finance Act 2016 had been enacted at the balance sheet date, these financial statements account for the tax rate at 20% for 2016. The deferred tax balances are measured at a rate of 19%, reducing to 17% in future periods from April 2020.

5 **Income tax expense (continued)**

The tax for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Profit on ordinary activities before tax	**7,881**	4,885
Tax at the UK corporation tax rate of 20.00% (2015: 20.25%)	**(1,576)**	(989)
Effects of:		
Adjustment to tax in respect of prior periods	**37**	(16)
Adjustment in respect of foreign tax rates	**(155)**	(51)
Foreign exchange gains on intercompany balances	**–**	(44)
Tax payable on restructuring of South Africa Business	**–**	53
Expenses not deductible for tax purposes		
Non-underlying costs not deductible	**(4)**	(318)
Other	**(87)**	(37)
Recognition of tax losses	**139**	147
Change in future tax rates	**8**	104
Total taxation	**(1,638)**	(1,151)

The total tax charge of £1,638,000 (2015: £1,151,000) represents 20.8% (2015: 23.6%) of the Group profit before tax of £7,881,000 (2015: £4,885,000).

After adjusting for the impact of non-underlying items, the prior year tax charges and the recognition of tax losses, the tax charge for the year of £2,004,000 (£1,546,000) represents 21.80% (2015: 21.46%), 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 2016			Year ended 31 Dec 2015		
	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
Basic EPS						
Earnings attributable to ordinary shareholders	**6,243**	**59,088**	**10.6**	3,734	61,777	6.0
Effect of dilutive securities:						
– share options	**–**	**3,428**	**(0.6)**	–	5,073	(0.4)
Diluted EPS	**6,243**	**62,516**	**10.0**	3,734	66,850	5.6

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 21.80% (2015: 21.46%).

	Year ended 31 Dec 2016		Year ended 31 Dec 2015	
	Basic EPS pence	**Diluted EPS pence**	Basic EPS pence	Diluted EPS pence
Earnings per share	**10.6**	**10.0**	6.0	5.6
Non-underlying items net of tax	**1.9**	**1.8**	3.3	3.0
Foreign exchange losses on intercompany balances tax charge	**–**	**–**	0.1	0.1
Tax losses recognised	**(0.2)**	**(0.2)**	(0.2)	(0.2)
Adjusted earnings per share	**12.3**	**11.6**	9.2	8.5

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Profit on ordinary activities before tax and non-underlying items	**9,194**	7,201
Tax charge at a rate of 21.80% (2015: 21.46%)	**(2,004)**	(1,546)
	7,190	5,655
Prior years' tax charge	**37**	(16)
Non-underlying items net of tax	**(1,123)**	(2,008)
Foreign exchange losses on intercompany balances tax charge	**–**	(44)
Recognition of tax losses	**139**	147
Profit on ordinary activities after tax	**6,243**	3,734

7 Dividends

	2016 pence per share	2015 pence per share	2016 £000	2015 £000
Dividends paid:				
Interim dividend	**1.5**	1.4	**886**	812
Final dividend (prior year)	**2.8**	2.2	**1,654**	1,277
	4.3	3.6	**2,540**	2,089
Proposed but not recognised as a liability:				
Final dividend (current year)	**3.5**	2.8	**2,100**	**1,654**

The proposed final dividend was approved by the Board on 8 March 2017 but was not included as a liability as at 31 December 2016, 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 26 May 2017 to shareholders on the register at the close of business on 5 May 2017.

8 Goodwill

	31 Dec 2016 £000	31 Dec 2015 £000
Cost		
At 1 January and 31 December	**59,709**	59,709
Accumulated impairment		
At 1 January and 31 December	**(17,935)**	(17,935)
Net book amount	**41,774**	41,774

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	Microgen Financial Systems £000	Total £000
At 1 January and 31 December 2016	15,347	26,427	41,774

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.

The Board approved plans, prepared for the Microgen Financial Systems operating business, project a reduction in operating income of 5.0% per annum for the next four years following the approved 2017 plan. Whilst part of the strategy for Microgen 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 Microgen Financial Systems.

8 **Goodwill (continued)**

The Board approved plans for Aptitude Software project a growth in operating income of 10% per annum for the next four years following the approved 2017 plans. The Board considers this to be an achievable growth rate given the increased investment in the business since 2013 and the progress made in 2016.

The terminal growth rates for the period after 2021 are no greater than 2.25% per annum for either business. The conversion to cash ratio is assumed to be 80%. The utilisation of deferred tax losses to offset the tax payable has not been considered. The discount rate applied to the CGUs was 9.8% (2015: 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
Group			
Cost			
At 1 January 2016	855	5,508	6,363
Acquisitions through business combinations and adjustment to 2015 acquisitions	127	2,008	2,135
At 31 December 2016	**982**	**7,516**	**8,498**
Accumulated amortisation and impairment			
At 1 January 2016	84	345	429
Amortisation	145	667	812
At 31 December 2016	**229**	**1,012**	**1,241**
Net book amount			
At 31 December 2016	**753**	**6,504**	**7,257**

9 Intangible assets (continued)

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

The Company held no intangible assets during the year (2015: 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 2016 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 (2015: 6 years) in respect of software IPR and in process R&D and 10 years (2015: 10 years) in respect of customer relationships.

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

10 Property, plant and equipment

	Leasehold improve-ments £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group				
Cost				
At 1 January 2016	465	4,049	181	**4,695**
Additions	120	755	19	**894**
Acquired from acquisitions	4	25	10	**39**
Disposals	–	(358)	(13)	**(371)**
Exchange movements	10	250	5	**265**
At 31 December 2016	**599**	**4,721**	**202**	**5,522**
Accumulated depreciation				
At 1 January 2016	436	3,173	158	**3,767**
Charge for the year (note 2)	13	573	15	**601**
Disposals	–	(358)	(11)	**(369)**
Exchange movements	6	183	4	**193**
At 31 December 2016	**455**	**3,571**	**166**	**4,192**
Net book amount				
At 31 December 2016	**144**	**1,150**	**36**	**1,330**

10 Property, plant and equipment (continued)

	Freehold land and buildings £000	Leasehold improve-ments £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group					
Cost					
At 1 January 2015	4,579	854	3,593	189	9,215
Additions	–	–	518	6	524
Acquired from 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)
At 31 December 2015	**–**	**465**	**4,049**	**181**	**4,695**
Accumulated depreciation					
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)
Impairment	(697)	(385)	–	–	(1,082)
Exchange movements	–	(2)	(77)	(4)	(83)
At 31 December 2015	**–**	**436**	**3,173**	**158**	**3,767**
Net book amount					
At 31 December 2015	**–**	**29**	**876**	**23**	**928**

The Company held no property, plant and equipment in the year (2015: nil).

Assets classified as held for sale

Group	**2016 £000**	2015 £000
Freehold property held for sale	**–**	2,350

The Group exchanged contracts in 2015 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 fixed assets were impaired accordingly before being transferred to ‘Assets classified as held for sale’. The sale completed in 2016.

11 Investments in subsidiaries

The Group did not hold any investments in 2016 (2015: nil).

	2016 £000	2015 £000
Company		
Cost		
At 1 January	**55,004**	54,894
Share based payments – share options granted to employees of subsidiaries	**610**	110
At 31 December	**55,614**	55,004
Impairment		
At 31 December	**13,155**	13,155
Net book amount		
At 31 December	**42,459**	41,849

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.

Subsidiaries	Country	Activity
Aptitude Software (Canada) Limited *	Canada	Employment and Group Services
Aptitude Software Inc.*	USA	Software and Services
Aptitude Software Limited	England & Wales	Software and Services
Infoscreen (Cyprus) Limited	Cyprus	Software and Services
Infoscreen Limited	Hong Kong	Software and Services
Microgen (Alchemy) Limited	Jersey	Not Trading
Microgen Asset Management Solutions Limited *	England & Wales	Not Trading
Microgen Banking Systems Limited *	England & Wales	Software and Services
Microgen (Channel Islands) Limited *	Guernsey	Software and Services
Microgen Financial Systems Limited	England & Wales	Software and Services
Microgen (Jersey) Limited	Jersey	Software and Services
Microgen (Jobstream) Limited *	England & Wales	Not Trading
Microgen (Jobstream Systems) Limited *	England & Wales	Dormant
Microgen (Jobstream UK) Limited *	England & Wales	Dormant
Microgen Management Services Limited	England & Wales	Employment and Group Services
Microgen Poland Sp. Z.o.o.*	Poland	Development
Microgen Solutions Limited *	England & Wales	Software and Services
Microgen (South Africa) Pty Limited *	South Africa	Not Trading
Microgen Wealth Management Systems Limited *	England & Wales	Software and Services

* Indirectly held by Microgen plc

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

During 2016 Microgen Wealth Management Systems Limited, a subsidiary of Microgen plc, acquired the share capital of Infoscreen (Cyprus) Limited.

12 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2015: 20%) for balances expected to be recovered within 12 months reducing to 17% for balances expected to be recovered in subsequent periods.

Deferred tax

	2016 £'000	2015 £'000
Group		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**505**	263
– Deferred tax asset to be recovered within 12 months	**233**	298
	738	561
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**(1,140)**	(943)
– Deferred tax liabilities to be settled within 12 months	**(176)**	(139)
	(1,316)	(1,082)
Deferred tax liability	**(578)**	(521)

Net deferred tax liability

	2016 £'000	2015 £'000
At 1 January	**(521)**	771
Total charge to income statement for the year	**(4)**	(24)
Credit/(charge) to equity (note 23)	**188**	(161)
Exchange differences	**(7)**	(25)
On acquisition of subsidiaries	**(425)**	(1,273)
Non-underlying deferred tax credit to the income statement for the year	**191**	191
At 31 December	**(578)**	(521)

Deferred tax asset

	Accelerated capital allowances £000	Short term timing differences £000	Share-based payments £000	Taxable trading losses £000	Total £000
Group					
At 1 January 2015	155	169	291	156	771
Total (charge)/credit to income statement for the year	(49)	64	1	(40)	(24)
Charge to equity (note 23)	–	(44)	(117)	–	(161)
Exchange differences	–	(25)	–	–	(25)
At 31 December 2015	**106**	**164**	**175**	**116**	**561**
Total (charge)/credit to income statement for the year	(12)	12	26	(30)	(4)
(Charge)/credit to equity (note 23)	–	(39)	227	–	188
Exchange differences	–	(7)	–	–	(7)
At 31 December 2016	**94**	**130**	**428**	**86**	**738**

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.

12 Deferred tax (continued)

At the balance sheet date, the Group has unused tax losses of £3,413,000 (2015: £5,058,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £455,000 (2015: £575,000) of such losses which is the maximum the Group anticipates being able to utilise in the year ending 31 December 2017. No deferred asset has been recognised in respect of the remaining £2,958,000 (2015: £4,483,000) 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 acquisitions of intangible fixed assets

	2016 £000	2015 £000
Group		
At 1 January	**(1,082)**	–
On acquisition of subsidiaries	**(425)**	(1,273)
Deferred tax credit to the income statement for the year	**191**	191
At 31 December	**(1,316)**	(1,082)

13 Trade and other receivables

	Group 31 Dec 2016 £000	Group 31 Dec 2015 £000	**Company 31 Dec 2016 £000**	Company 31 Dec 2015 £000
Trade receivables	**6,484**	3,662	**–**	–
Less: provision for impairment of receivables	**(4)**	(5)	**–**	–
Trade receivables – net	**6,480**	3,657	**–**	–
Amounts owed by group undertakings	**–**	–	**167**	5,216
Other receivables	**468**	224	**83**	23
Prepayments and accrued income	**1,389**	772	**140**	93
	8,337	4,653	**390**	5,332

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

Within the trade receivables balance of £6,484,000 (2015: £3,662,000) there are balances totalling £3,418,000 (2015: £978,000) which, at 31 December 2016, were overdue for payment. Of this balance £3,028,000 (2015: £718,000) has been collected at 7 March 2017 (2015: 2 March 2016).

13 Trade and other receivables (continued)

The ageing of the trade receivables is as follows:

	Trade receivables	
	31 Dec 2016 £000	31 Dec 2015 £000
Not past due	**3,066**	2,684
Past due		
Less than one month overdue	**2,357**	923
One to two months overdue	**523**	20
Two to three months overdue	**461**	33
More than three months overdue	**77**	2
At 31 December	**6,484**	3,662

The Company had no trade receivables in either year.

Trade and other receivables are denominated in the following currencies:

	Group 31 Dec 2016 £000	Group 31 Dec 2015 £000	**Company 31 Dec 2016 £000**	Company 31 Dec 2015 £000
Sterling	**4,279**	2,598	**390**	5,332
United States Dollars	**3,511**	1,297	**–**	–
Other	**547**	758	**–**	–
	8,337	4,653	**390**	5,332

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

	Group 31 Dec 2016 £000	Group 31 Dec 2015 £000
At 1 January	**5**	7
Receivables written off as uncollectable	**(1)**	(2)
(Credited)/charged to income statement	**–**	–
At 31 December	**4**	5

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 (2015: nil).

14 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group 31 Dec 2016 £000	Group 31 Dec 2015 £000	Company 31 Dec 2016 £000	Company 31 Dec 2015 £000
Sterling	**18,960**	16,756	**10,063**	9,085
South African Rand	**250**	398	**–**	–
United States Dollar	**4,070**	1,143	**–**	–
Polish Zloty	**217**	301	**–**	–
Canadian Dollar	**109**	2	**–**	–
Euros	**236**	–	**–**	–
Serbian Dinars	**1**	–	**–**	–
Hong Kong Dollars	**6**	–	**–**	–
Cash at bank and in hand	**23,849**	18,600	**10,063**	9,085

The effective interest rate on short term deposits was 0.4% (2015: 0.5%).

15 Trade and other payables

	Group 31 Dec 2016 £000	Group 31 Dec 2015 £000	Company 31 Dec 2016 £000	Company 31 Dec 2015 £000
Trade payables	**1,367**	715	**388**	64
Amounts owed to group undertakings	**–**	–	**7,331**	12,259
Other tax and social security payable	**1,323**	875	**–**	–
Other payables	**235**	60	**211**	25
Accruals	**4,305**	2,336	**37**	38
Deferred income	**20,617**	16,991	**–**	–
	27,847	20,977	**7,967**	12,386

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

16 Financial liabilities

	Group 31 Dec 2016 £000	Group 31 Dec 2015 £000
Bank loan	**10,250**	13,250
The borrowings are repayable as follows:		
Within one year	**3,000**	3,000
In the second year	**7,250**	3,000
In the third to fifth years inclusive	**–**	7,250
	10,250	13,250
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(3,000)**	(3,000)
Amount due for settlement after 12 months	**7,250**	10,250

16 Financial liabilities (continued)

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 £10,250,000 is outstanding at 31 December 2016. The loan is secured solely against the assets of the Microgen Financial Systems operating business of the Group. Operating covenants are limited to the performance of the Microgen 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 Microgen Financial Systems business. In the event of a default of the loan, Microgen plc has the option, but not the obligation, to remedy. 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 2016 (2015: Nil).

17 Provisions

	Provisions	
	31 Dec 2016 £000	31 Dec 2015 £000
Group		
At 1 January	**275**	276
Charged/(credited) to income statement	**46**	(2)
Utilised	**(20)**	(2)
On acquisition	**–**	10
Foreign exchange	**10**	(7)
At 31 December	**311**	275

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

	Provisions	
	31 Dec 2016 £000	31 Dec 2015 £000
Current	**24**	35
Non-current	**287**	240
	311	275

£275,000 of the total provision at 31 December 2016 of £311,000 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 (2015: £240,000).

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 2016		31 Dec 2015	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Interest rate swaps – cash flow hedges	**–**	**150**	–	116
Forward foreign exchange contracts – cash flow hedges	**134**	**48**	11	92
	134	**198**	11	208

18 Financial instruments (continued)

Total derivatives designated as hedging instruments

The company has no derivative financial instruments (2015: 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.

Currency derivatives

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:

	31 Dec 2016 £000	31 Dec 2015 £000
Forward foreign exchange contracts – Polish Zloty	**3,782**	3,572

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

At 31 December 2016, the fair value of the Group's currency derivatives is estimated to be an asset of approximately £86,000 (2015: liability £81,000), comprising £134,000 assets (2015: £11,000) and £48,000 of liabilities (2015: £92,000), 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 (2015: 12 months).

A gain of £261,000 (2015: loss £408,000) 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 2016 amounts to £10,250,000 (2015: £13,250,000).

The fair value liability recognised in the consolidated statement of comprehensive income is £150,000 (2015: £116,000). Additional disclosures are set out in the accounting policies relating to risk management.

18 Financial instruments (continued)

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.

	Note	31 Dec 2016 Book value £000	31 Dec 2016 Fair value £000	31 Dec 2015 Book value £000	31 Dec 2015 Fair value £000
Group					
Cash at bank and in hand	14	**23,849**	**23,849**	18,600	18,600

	Note	31 Dec 2016 Book value £000	31 Dec 2016 Fair value £000	31 Dec 2015 Book value £000	31 Dec 2015 Fair value £000
Company					
Cash at bank and in hand	14	**10,063**	**10,063**	9,085	9,085

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.

Group	2016 £000	2015 £000
Trade receivables		
Banks and financial institutions	**559**	2,046
Other corporates	**2,497**	638
Total current trade receivables	**3,056**	2,684
Overdue trade receivables	**3,428**	978
Total trade receivables	**6,484**	3,662

Cash at bank and short-term bank deposits	Current Rating (Moody's)	2016 £000	2015 £000
	Aa2	**523**	1,016
	Aa3	**109**	2
	A1	**6,663**	2,992
	A2	**–**	1,566
	A3	**16,069**	12,613
	Baa2	**250**	411
	Caa1	**40**	–
	Caa2	**195**	–
		23,849	18,600

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

19 Share capital

Group and company	31 Dec 2016 Number	31 Dec 2016 £000	31 Dec 2015 Number	31 Dec 2015 £000
Ordinary shares of 6 3/7p each (2015: 6 3/7p each)				
Issued and fully paid:				
At 1 January	**59,060,521**	**3,796**	74,610,669	3,730
Issued under share option schemes	**236,509**	**15**	1,030,001	66
Share reorganisation	**–**	**–**	(16,580,149)	–
At 31 December 2016	**59,297,030**	**3,811**	59,060,521	3,796

	31 Dec 2016 Number	31 Dec 2016 £000	31 Dec 2015 Number	31 Dec 2015 £000
'B' shares at 27 pence each				
Issued at fully paid				
Opening balance as at 1 January	**–**	**–**	–	–
Issue of 'B' shares	**–**	**–**	40,052,751	10,814
Redemption of 'B' shares	**–**	**–**	(40,052,751)	(10,814)
At 31 December 2016	**–**	**–**	–	–

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 2016 Number	31 Dec 2016 £000	31 Dec 2015 Number	31 Dec 2015 £000
'C' shares at £0.000001 each				
Issued at fully paid				
Opening balance as at 1 January	**–**	**–**	–	–
Issue of 'C' shares	**–**	**–**	34,557,918	–
Cancellation of 'C' Shares	**–**	**–**	(34,557,918)	–
At 31 December 2016	**–**	**–**	–	–

On 19 March 2015, 34,557,918 'C' shares were issued at £0.000001 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 payable 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 of a Return of Value to shareholders of 27 pence per ordinary share amounting to £20m 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.

19 Share capital (continued)

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	2016 Number	2015 Number
Between 15 June 2009 and 15 June 2016	2006	59.33p	–	9,999
Between 6 August 2010 and 6 August 2017	2007	5p	**16,670**	16,670
Between 6 August 2010 and 6 August 2017	2007	46.83p	**8,667**	21,668
Between 28 February 2011 and 28 February 2018	2008	48.17p	**20,832**	33,331
Between 2 December 2011 and 2 December 2018	2008	43.50p	**24,999**	33,332
Between 2 December 2011 and 2 December 2018	2008	5p	**18,334**	18,334
Between 3 March 2014 and 3 March 2021	2011	140p	**17,205**	17,205
Between 18 November 2016 and 18 November 2023	2013	5p	**1,481,100**	4,222,500
Between 18 November 2018 and 18 November 2023	2013	5p	**899,321**	927,500
Between 21 October 2018 and 21 October 2025	2015	6 3/7p	**690,000**	715,000
Between 3 August 2019 and 3 August 2026	2016	6 3/7p	**601,037**	–
Between 3 August 2019 and 3 August 2026	2016	6 3/7p	**386,476**	–
Between 1 November 2019 and 1 May 2020	2016	190.5p	**203,269**	–
Between 1 November 2019 and 1 May 2020	2016	186.5p	**576,383**	–
			4,944,293	6,015,539

20 Share premium account

	2016 £000	2015 £000
Group and Company		
At 1 January	**4,484**	12,049
Premium on shares issued during the year under the share option schemes	**14**	470
Issue and redemption of ‘B’ shares	**–**	(8,035)
At 31 December	**4,498**	4,484

21 Capital Redemption Reserve

	2016 £000	2015 £000
Group and Company		
At 1 January	**12,372**	1,558
On issue and redemption of ‘B’ shares	**–**	10,814
At 31 December	**12,372**	12,372

22 Other reserves

	Derivatives hedge reserve £000	Merger reserve £000	Total £000
Group			
At 1 January 2015	(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 period	230	–	230
At 31 December 2015	(197)	34,195	33,998
Cash flow hedges			
– net fair value gains in the period	133	–	133
At 31 December 2016	**(64)**	**34,195**	**34,131**

	Merger reserve £000	Total £000
Company		
At 1 January 2015	**20,177**	**20,177**
On issue and redemption of 'B' shares	(2,779)	(2,779)
At 31 December 2015	17,398	17,398
At 31 December 2016	**17,398**	**17,398**

23 (Accumulated losses)/retained earnings

	Group £000	Company £000
At 1 January 2015	2,553	25,645
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)
At 31 December 2015	(16,121)	5,848
Profit for the year	6,243	2,966
Share options – value of employee service (note 27)	610	610
Deferred tax on financial instruments (note 12)	(39)	–
Deferred tax on share options (note 12)	227	–
Corporation tax on share options	68	–
Dividends paid (note 7)	(2,540)	(2,540)
At 31 December 2016	**(11,552)**	**6,884**

23 Retained earnings (continued)

The profit for the financial year dealt with in the financial statements of the Company was £2,966,000 (2015: £2,501,000). 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 2016 £000	Group Year ended 31 Dec 2015 £000	**Company Year ended 31 Dec 2016 £000**	Company Year ended 31 Dec 2015 £000
Profit before tax	**7,881**	4,885	**2,966**	2,501
Adjustments for:				
Depreciation	**601**	597	**–**	–
Amortisation	**812**	429	**–**	–
Impairment of fixed assets	**–**	1,532	**–**	–
Research and development credit	**–**	(101)	**–**	–
Share-based payment expense	**610**	110	**–**	–
Finance income	**(66)**	(104)	**(30)**	(54)
Finance costs	**397**	492	**–**	–
Dividend income	**–**	–	**(3,500)**	(4,000)
Changes in working capital excluding the effects of acquisition:				
Increase in receivables	**(3,412)**	(1,162)	**(107)**	(16)
Increase in payables	**6,173**	828	**510**	61
Increase/(decrease) in provisions	**36**	(11)	**–**	–
Cash generated from/(used in) operations	**13,032**	7,495	**(161)**	(1,508)

25 Acquisitions

Infoscreen (Cyprus) Limited

In May 2016 the Group acquired the entire share capital and voting rights of Infoscreen (Cyprus) Limited ("Infoscreen") for consideration in cash of £1.4 million, in addition to a commitment to settle vendor debt following acquisition of £0.3 million.

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
Net assets acquired			
Intangible fixed assets	–	2,200	2,200
Deferred tax liability	–	(440)	(440)
Property, plant and equipment	42	–	42
Trade and other receivables	218	–	218
Cash and cash equivalents	21	–	21
Trade and other payables	(238)	–	(238)
Deferred income	(114)	–	(114)
	(71)	1,760	1,689
Goodwill			–
Total consideration			1,689

	£000
Satisfied by	
Cash paid on completion	1,430
Settlement of vendor debt following acquisition	259
	1,689

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

	Provisional fair value £000
Software IPR and in process R&D	183
Customer relationships	2,017
	2,200

25 Acquisitions (continued)

Microgen (Alchemy) Limited

At 31 December 2015, the fair value adjustments for the June 2015 acquisition of Microgen (Alchemy) Limited ("Alchemy") were provisional. The Group have completed the review in 2016 and the net assets acquired in 2015 and the intangibles arising were as follows:

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

	Carrying values pre acquisition £000	Fair value adjustments £000	Final fair value £000
Net assets acquired			
Intangible fixed assets	–	272	272
Deferred tax liability	–	(52)	(52)
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)
	(3)	220	217
Goodwill			–
Total consideration			217

Satisfied by	
Cash paid on completion	83
Cash paid following year end	134
	217

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

	Final fair value £000
Software IPR and in process R&D	15
Customer relationships	257
	272

25 Acquisitions (continued)

Microgen (Jobstream) Limited

At 31 December 2015, the fair value adjustments for the July 2015 acquisition of Microgen (Jobstream) Limited ("Jobstream") were provisional. The Group have completed the review in 2016 and the net assets acquired in 2015 and the intangibles arising were as follows:

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

	Carrying values pre acquisition £000	Fair value adjustments £000	Final fair value £000
Net assets acquired			
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)
	(103)	3,531	3,428
Goodwill			–
Total consideration			3,428

Satisfied by	
Cash paid on completion	3,150
Deferred consideration paid prior to year end	278
	3,428

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

	Final fair value £000
Software IPR and in process R&D	603
Customer relationships	3,811
	4,414

26 Commitments and operating leases

The Group and Company have no unprovided financial commitments (2015: £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.

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 2016		31 Dec 2015	
	Properties £000	**Other £000**	Properties £000	Other £000
Within one year	**839**	**4**	750	1
In the second to fifth year inclusive	**341**	**4**	648	1
	1,180	**8**	1,398	2

The Company had no operating lease commitments during the year (2015: £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. In 2016 a new scheme was introduced, the 2016 Performance Share Plan, with many similar features as the 2006 Performance Share Plan. For the purposes of this note 27, references to the PSP is in respect of both the 2006 and 2016 Performance Share Plans. 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.

987,513 options were granted on 3 August 2016 (2015: 715,000 awards granted). The performance conditions are in line with those described for the executive directors on page 46.

At the year end there were 26 (2015: 26) employees currently participating in the scheme. Exercise of an option is subject to continued employment.

27 Share based payments (continued)

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

	2016		2015	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**5,900,004**	**5.17p**	5,495,004	5p
Granted	**987,513**	**6 3/7p**	715,000	6 3/7p
Exercised	**(196,010)**	**5p**	–	–
Lapsed	**(39,076)**	**5p**	(5,000)	5p
Forfeited	**(2,559,493)**	**5p**	(305,000)	5p
Outstanding at 31 December	**4,092,938**	**5.59p**	5,900,004	5.17p
Exercisable at 31 December	**1,516,104**	**5p**	35,004	5p

196,010 PSP share options were exercised in 2016. The weighted average share price at the date of exercise for share options exercised during 2016 under the Share Option Plans was 184.5p.

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 7.82 years (2015: 8.09 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. Following the introduction of a new sharesave scheme in 2016 146 employees (2015: 8) 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:

	2016		2015	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**115,535**	**61.21p**	1,218,549	56.56p
Granted	**779,652**	**187.54p**	–	–
Exercised	**(40,499)**	**48.62p**	(1,030,001)	52.14p
Lapsed	**(3,333)**	**59.33p**	(73,013)	111.44p
Outstanding at 31 December	**851,355**	**177.51p**	115,535	61.21p
Exercisable at 31 December	**71,703**	**68.41p**	115,535	61.21p

27 Share based payments (continued)

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 163.1p (2015: 118.7p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 3.23 years (2015: 2.58 years).

Included within the outstanding share options at 31 December 2016 under Share Option Plans and the PSP were outstanding share options of 2,380,421 (2015: 5,865,000) 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 £610,000 (2015: £110,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total charge in the income statement was £548,000 (2015: £109,000). There was a deferred tax credit of £227,000 (2015; Debit £117,000) and a corporation tax credit of £68,000 (2015: £51,000) 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 employees in certain overseas territories with contributions up to 9.76% of basic salary.

The total expense recognised in the income statement of £605,000 (2015: £483,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2016, contributions of £44,000 (2015: £36,000) due in respect of the 2016 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 2015 the Group entered into transactions with Science Group plc. Microgen's former 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 2015 at a cost of £10,800 to Microgen plc. No equivalent transaction occurred in 2016.

The Company acts as the Group's treasury vehicle and during the year borrowed a net £7,164,000 (2015: £7,043,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2016 (2015: nil), as defined by International Accounting Standard No 24 "Related Party Disclosures" other than key management compensation as disclosed in note 3.

Shareholder *Information*

Size of Shareholding	Number of Shareholders	Percentage of total shareholders	Number of shares	Percentage of total issued shares
1 – 1,000	574	58.4%	181,378	0.3%
1,001 – 5,000	214	21.8%	483,441	0.8%
5,001 – 50,000	130	13.2%	2,059,911	3.4%
50,001 – 500,000	42	4.3%	5,593,186	9.3%
500,000 and above	23	2.3%	51,673,404	86.2%
Totals	**983**	**100.0%**	**59,991,320**	**100.0%**

Investor Type	Number of shares	Percentage of total issued shares
Nominee Companies	39,871,371	66.4%
Bank & Bank Nominees	10,485,253	17.5%
Private Shareholders	6,768,340	11.3%
Pension Funds	2,500,000	4.2%
Limited Companies	292,336	0.5%
Other Institutions	67,859	0.1%
Deceased Shareholders	6,161	0.0%
Totals	**59,991,320**	**100.0%**

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

Registrar

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

Telephone: 0871 664 0300
e-mail: 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 12p 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 Monday 24 April 2017 at Sentinel House, Harvest Crescent, Ancells Business Park, Fleet, GU51 2UZ. 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.

microgen plc

Old Change House
128 Queen Victoria Street
London, EC4V 4BJ
020 7496 8100

investors@microgen.com
www.microgen.com

Company Registered Number: 1602662
Microgen® Microgen plc
For Microgen patent information
please refer to www.microgen.com