microgen plc

Annual report 2017

Directors, Officers and Advisors

Ivan Martin
Non-Executive Chairman / Chair of Nomination Committee
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 Church Topco Limited, trading as Xceptor (a London-based international software business backed by CBPE Capital). He has no other significant commitments.

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. 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.

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 / Chair of Remuneration Committee
Peter Whiting was appointed as a Non-Executive Director on 2 February 2012 and has been chair of the Remuneration Committee since April 2016. 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, Keystone Law Group plc and Trufin plc.

Barbara Moorhouse
Non-Executive Director / Chair of Audit Committee
Barbara Moorhouse was appointed as a Non-Executive Director on 1 April 2017 and took on the role of Audit Committee Chair on 24 April 2017. Barbara has extensive senior experience in operating and financial roles across the public and private sectors. Her most recent executive roles were as Chief Operating Officer at Westminster City Council, and Director General at Ministry of Justice and Department for Transport. Earlier in her career, she was CFO at two international listed software companies – Kewill Systems plc and Scala Business Solutions NV. Barbara is currently a Non-Executive Director of Balfour Beatty plc, IDOX plc, Agility Trains and the Lending Standards Board. She is also a trustee and Chair of Audit Committee at Guy's and St Thomas' Charity.

Mark Heather
Company Secretary
Mark Heather was appointed as Company Secretary on 22 August 2016. He is a Solicitor of England and Wales and has more than 20 years' experience working both in private practice and in-house with technology companies.

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 Street
London
EC1A 4HD

Registrars

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128 Queen Victoria Street
London
EC4V 4BJ

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Chairman's Statement

Microgen reports an excellent performance in 2017 by each of its two businesses as they continue to successfully execute their declared strategies. Aptitude Software is focused on the organic growth of its prestigious client base using its specialised financial management software applications. Microgen Financial Systems, through organic growth and add-on acquisitions, is focused on increasing its revenues from the Trust & Fund Administration ('T&FA') market and adjacent areas. Both Aptitude Software and Microgen Financial Systems continue to benefit from high quality revenue streams with excellent forward visibility arising from the recurring revenue licence models favoured by each business in their provision of business critical software.

Aptitude Software's continued focus on specialised financial management software applications has been rewarded with strong levels of new business in the year. This included multiple sales of the Aptitude Revenue Recognition Engine and the Aptitude Accounting Hub, together with the first sale of the new Aptitude Lease Accounting Engine application to one of the world's largest technology businesses. These new customers have contributed to revenue for the Aptitude Software business growing 68% to £44.3 million (2016: £26.4 million), growth of 58% excluding the benefit of the RevStream acquisition. Aptitude Software has started 2018 well with the strategically important first sale of the Aptitude Insurance Calculation Engine ('AICE') to an Asian insurance group. The sale is significantly ahead of the 2021 effective date of IFRS 17, the new accounting standard which AICE addresses, and there are a number of further global opportunities for AICE the success of which will be a key part of the continued development of the business in 2018 and following years.

RevStream Inc. ('RevStream'), a California-based provider of cloud-enabled revenue management software, was acquired by Aptitude Software in August 2017 complementing and broadening the specialist capabilities within the core business. The integration of the acquired business is progressing in accordance with expectations with the highlight being the growth in the customer base since acquisition.

Microgen Financial Systems continues to benefit from its focus on the T&FA market within the wealth management sector. This focus has led to Microgen Financial Systems' revenue increasing by 10% to £18.3 million (2016: £16.6 million) with T&FA revenues increasing by 27% to £11.3 million (2016: £8.9 million), growth of 16% excluding the benefit of recent acquisitions. T&FA revenues now represent 62% (2016: 54%) of overall revenue for the business in 2017. Complementing continued progress with the Microgen 5Series product Microgen Financial Systems completed the acquisition of Primacy Corporation ('Primacy') in February 2017 bringing the total number of acquisitions in the T&FA market since December 2014 to five.

The above progress has led to overall revenue for 2017 increasing by 46% to £62.6 million (2016: £43.0 million), growth of 37% excluding the benefit of recent acquisitions. Group adjusted operating profit increased by 43% to £13.6 million (2016: £9.5 million). Group operating profit on a statutory basis was £11.1 million (2016: £8.2 million).

Having considered the Group's progress and financial performance in 2017 the Board proposes the payment of a final dividend of 4.25 pence per share (2016: 3.5 pence), making a total of 6.25 pence per share for the year (2016: 5.0 pence), an increase of 25%. The proposed final dividend will be paid on 25 May 2018, subject to shareholder approval, to shareholders on the register at 4 May 2018.

The excellent financial performance in 2017 was made possible because of the outstanding contributions from the Group's exceptionally talented employees. There is a strong focus throughout the Group on talent management at all levels of the business whether it be recruitment, remuneration (including a group-wide share option scheme in which over 60% of employees participate), training or career development and it is very pleasing to see the development of a strong culture within the Group as a result.

The Group has continued to invest in its people, technology, organisation and a number of growth opportunities throughout 2017. Both businesses have made significant investment in their technology during 2017, whether developing new applications or enhancing existing ones. To support the growth of the businesses, the Group has successfully implemented new ERP and human capital management systems as well as strengthening the senior leadership teams within both businesses. These and other investments provide the Board with confidence that the success of the Group will be sustained in future periods.

The Board is pleased with the Group's start to 2018 by both businesses. Aptitude Software is well positioned for continued progress in 2018 with a number of new business opportunities for its growing product and service offerings. Microgen Financial Systems is well positioned to realise future growth opportunities as they arise and with particularly high levels of recurring revenue the business has excellent future visibility.

Ivan Martin
Chairman

6 March 2018

The Aptitude Software business provides a series of specialised financial management software applications which have the common capability of very rapidly processing very high volume complex, business event-driven transactions and calculations. Development continues to be performed principally at the Aptitude Technology Centre in Poland with sales, support and implementation services provided from Aptitude Software's London headquarters in addition to the North American and Singaporean offices. The business generates revenue from its software through a combination of licence fees (primarily annual recurring licences), software maintenance/support, software subscriptions for its cloud-based offerings and implementation services.

Highlights and Financial summary

Aptitude Software has benefitted from strong levels of new business in 2017 including multiple sales of the Aptitude Revenue Recognition Engine ('ARRE') and the Aptitude Accounting Hub ('AAH') together with the first sale of the new Aptitude Lease Accounting Engine ('ALAE') application to one of the world's largest technology businesses. Aptitude Software has started 2018 well with the strategically important first sale of the Aptitude Insurance Calculation Engine ('AICE') to an Asian insurance group. The sale is significantly ahead of the 2021 effective date of IFRS 17, the new accounting standard which AICE addresses, and there are a number of further global opportunities for AICE the success of which will be a key part of the continued development of the business in 2018 and following years. A further highlight has been the acquisition in August 2017 of RevStream Inc. ('RevStream'), a California-based provider of cloud-enabled revenue management software.

Overall revenue for the Aptitude Software business has grown by 68% to £44.3 million (2016: £26.4 million), growth of 58% excluding the benefit of the RevStream acquisition. Adjusted operating profit increased by 107% to £7.9 million (2016: £3.8 million) representing an adjusted operating margin of 18% (2016: 15%).

The Board continues to be focused on increasing Aptitude Software's recurring revenue base by promoting its annual licence fee model, however, with the acquisition of RevStream this base now includes subscription services income in respect of RevStream's cloud-based clients. Software revenues recognised in 2017 have increased 43% to £17.7 million (2016: £12.4 million), an increase of 35% excluding the benefit of the RevStream acquisition. At 31 December 2017 the recurring revenue base stands at £19.3 million (31 December 2016: £12.6 million), an increase of 53% during the year (the 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). Excluding the benefit of the RevStream acquisition, the increase in the recurring revenue base in 2017 is 30%.

Implementation services revenue has increased by 91% to £26.6 million (2016: £14.0 million), an increase of 78% excluding the benefit of the RevStream acquisition. 2017 benefitted from the exceptionally strong demand for ARRE implementation services by the regulatory deadline driven IFRS 15 / ASC 606 projects. The exceptional growth in demand for our implementation services experienced in 2017 is expected to moderate during the course of 2018 due to the growing partner model as partners, an increasingly important channel for new business, provide a growing proportion of resources for new implementations.

Key Product Review

Aptitude Software has a growing suite of specialised financial management software applications which have the common capability of very rapidly processing very high volume complex, business event-driven transactions and calculations.

Aptitude Insurance Calculation Engine ('AICE')

In May 2017 IFRS 17, a new accounting standard focused on insurance contracts, was released effective for accounting periods commencing on or after 1 January 2021. This standard requires significant change by the insurance industry, a sector within which Aptitude Software already has a presence with a number of clients using Aptitude Software's products. Aptitude Software has developed AICE to address the requirements of IFRS 17. AICE leverages both Aptitude Software's existing technology and its experience of the insurance industry. Whilst the effective date of IFRS 17 is in 2021, the nature of the changes required by insurers is such that any projects will need to commence further ahead of the effective date than was experienced for IFRS 16 / ASC 842 and, to a lesser extent, IFRS 15 / ASC 606 projects. Aptitude Software is therefore satisfied to have completed the strategically important first sale of AICE to an Asian insurance group in February 2018. There are a number of further global opportunities for AICE the success of which will be a key part of the continued development of the business in 2018 and following years.

Aptitude Lease Accounting Engine ('ALAE')

In December 2017 Aptitude Software entered into the first contract for ALAE with a global technology firm. With a pipeline of opportunities further sales are expected in 2018 as organisations prepare to address the requirements of IFRS 16 / ASC 842, the new leasing accounting standards effective for accounting periods commencing on or after 1 January 2019. ALAE is applicable for large enterprises within a wider number of sectors than the markets targeted by ARRE or AAH. It is considered that organisations will be leaving their choice of technology provider to nearer the effective date for the new lease accounting requirements given that implementations of ALAE are expected to be of shorter duration than for Aptitude Software's other products.

Aptitude Revenue Recognition Engine ('ARRE')

Aptitude Software continued to make excellent progress in 2017 with ARRE which is focused on the telecoms industry. ARRE enables telcos to address the depth of change, risks and costs associated with the changing regulatory environment (namely, the IFRS 15 and ASC 606 revenue accounting standards effective for accounting periods commencing on or after 1 January 2018). With a number of new contracts entered into during the year the largest telcos have now selected their respective solutions to address the new accounting standards and as such new business demand in 2018 is not expected to be at the level experienced in 2016 and 2017. The large user base is expected, however, to provide opportunities for incremental recurring revenues in the medium term as the usage and requirements of ARRE increase.

Aptitude RevStream

RevStream's cloud-enabled revenue management software continues to see a number of new business opportunities due to the broader functionality of the software. The software provides clients with both business benefits in addition to regulatory compliance, and Aptitude RevStream's focus on the US market where privately owned companies have an additional year to comply with the ASC 606 accounting standard is favourable. Since the acquisition of the business in August 2017 a number of new business contracts were entered into with North American businesses.

Aptitude Accounting Hub ('AAH')

AAH has clients within banking, healthcare, insurance and telecommunications with a number of new customers contracted in 2017. AAH is a high volume operational accounting platform and sub-ledger that centralises control, improves reporting and generates a rich foundation of contract level finance and accounting data. Regulatory and industry change continues to be a driver of demand for AAH as complexity of contracts, products and services increases across a number of industries.

Research and Development

To ensure our existing specialised financial management software applications retain their market-leading positions and that new applications are successful investment continues to be increased in the Aptitude Technology Centre in Poland to ensure the needs of our customers are being met. Including RevStream developers in California, the number of research and development specialists at 31 December 2017 increased to 105 (31 December 2016: 91) with further recruitment underway. During the year a re-organisation was performed within the Aptitude Technology Centre with focused teams containing all development disciplines established for each application. This re-organisation facilitates greater dynamism in the development of the applications whilst providing a number of its employees with greater opportunities for advancement and new responsibilities within the Aptitude Technology Centre. Research and development expenditure in the year was £5.3 million (2016: £4.0 million) with all costs expensed as incurred with the increase in cost including £0.4 million related to foreign exchange and £0.5 million in respect of RevStream development costs incurred since acquisition.

Partner Network

Aptitude Software's partner network has continued to develop during 2017 and is significantly contributing to the growth of the business, especially in new geographical and vertical markets. Aptitude Software's partner network is comprised of a number of global accounting firms, system integrators and technology companies where the partners both influence new business sales processes and provide resources onto the projects augmenting Aptitude Software's implementation capability. Over 80% of 2017 new business contracts were partner influenced and during the course of 2017 over 250 partner consultants have been trained on one or more of Aptitude Software's products.

RevStream Acquisition

In August 2017 Aptitude Software acquired RevStream, a California-based provider of revenue management software, for consideration of £9.3 million including deferred equity consideration of £2.0 million. Following acquisition Aptitude Software settled £2.5 million of debt and other liabilities which were outstanding at completion.

RevStream's software allows Aptitude Software to offer broader revenue management capabilities complementing the specialised capabilities of the Aptitude Revenue Recognition Engine. Additionally, the expertise of RevStream in deploying its software in the cloud is being applied to those Aptitude Software applications where cloud deployment is appropriate, most notably the Aptitude Lease Accounting Engine where the ability to demonstrate our expertise to prospects is proving of value in on-going sales opportunities. In addition to the above benefits, Aptitude Software has acquired a business with a growing recurring revenue base (£2.9 million at acquisition) and for the four months under Aptitude Software's ownership RevStream has contributed £2.7 million to Aptitude Software's 2017 revenue on a break-even basis. RevStream is expected to be profitable in 2018 as its recurring revenue base grows.

Team

The continuing growth of the Aptitude Software business is only possible because of the outstanding contributions from its exceptionally talented employees across the globe and the business is benefitting from the development of a strong culture with excellent interaction between all teams. Investment continues to be made at all levels of the business whether it be recruitment, training or career development. A number of talented individuals have joined the business during the course of the year with a Chief Revenue Officer for Europe and Asia joining the senior leadership team at the start of 2018. The addition of the RevStream business in August 2017 brought into the Aptitude Software business over 30 talented individuals together with their technical skills of deploying cloud-enabled technology. The number of employees within the Aptitude Software business increased during 2017 by 39% to 271 (31 December 2016: 195), growth of 22% once the acquisition of RevStream is adjusted for.

Foreign Exchange

Aptitude Software is an increasingly international business with 57% of its revenues invoiced in US Dollars to North American clients (2016: 53%). The business has benefitted in 2017 from the strengthening of the US Dollar vs. GBP compared to the 2016 exchange rates. Aptitude Software's 2017 revenue would have increased by 65% to £43.5 million on a constant currency basis (compared to actual result of £44.3 million). On a constant currency basis adjusted operating profit in 2017 would have increased by 97% to £7.5 million (compared to actual result of £7.9 million). The weakening of GBP vs. Polish Zloty accounted for £0.4 million of the increase in research and development costs in 2017 as Aptitude Software incurred the deferred effect, due to the twelve month rolling hedge, of 2016 exchange rate movement between the two currencies with the full effect of this movement impacting 2018.

Summary

In summary, the business continues to successfully execute its strategy of focussing and leveraging its existing expertise in high volume transaction sectors by providing specialised financial management software applications to meet new accounting standards, regulations and business areas poorly served by ERP systems. Aptitude Software made excellent progress in 2017 and has started 2018 well with the important first sale of the new AICE application to address the requirements of IFRS 17.

Tom Crawford
Chief Executive Officer, Aptitude Software

6 March 2018

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 and regulatory 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 focused 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.

Highlights and Financial Summary

Microgen Financial Systems' revenue for the year ended 31 December 2017 increased by 10% to £18.3 million (2016: £16.6 million). The recurring revenue proportion of its revenues remain particularly high at 76%.

The key highlight for the business has been the continued sales progress made within T&FA by Microgen 5Series with both new business contracts and upgrades, complemented by the acquisition in February 2017 of Primacy.

In addition to the above progress, at the end of 2017 the business has rationalised the number of offices brought into the group as a result of the recent acquisitions with the savings contributing to the funding of a number of investments in the business. These investments provide Microgen Financial Systems with the potential to accelerate the rate of organic growth previously experienced by the T&FA business and include a strengthening of the senior leadership and new business development teams.

Adjusted operating profit, reflecting the timing of the above investments and the integration programmes of recent acquisitions, is reported at £7.5 million (2016: £7.2 million) representing an adjusted operating margin of 41% (2016: 43%). 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 is reported at £6.1 million (2016: £6.3 million).

Trust and Fund Administration

T&FA revenues grew by 27% to £11.3 million (2016: £8.9 million), an increase of 16% excluding the benefit of recent acquisitions. T&FA revenues now represent 62% (2016: 54%) of Microgen Financial Systems' revenue with an expectation that this will increase further as a proportion of overall revenue in 2018. T&FA recurring revenue in 2017 increased by 21% to £8.1 million (2016: £6.7 million), an increase of 8% excluding the benefit of recent acquisitions.

The T&FA recurring revenue base increased during the year by 28% to £8.8 million at 31 December 2017 (31 December 2016: £6.9 million), an increase of 16% excluding the benefit of the Primacy acquisition. Within the T&FA recurring revenue base of £8.8 million at 31 December 2017 is £4.5 million (2016: £3.4 million) relating to the Microgen 5Series product with the recurring revenue base on acquired and legacy T&FA products increasing as a result of the Primacy acquisition to £4.3 million (2016: £3.5 million). Upgrading a client using acquired or legacy T&FA products to Microgen 5Series provides the business with the opportunity to generate implementation fees and an uplift in the annual licence fees paid given the greater functionality and performance of Microgen 5Series. It is a key objective of the business in 2018 to accelerate the rate at which customers migrate onto Microgen 5Series.

Primacy was acquired in February 2017 for total cash consideration of £3.4 million. Primacy is a Toronto-based provider of software to the Trust & Fund Administration market whose integration into the Microgen Financial Systems business is progressing in line with expectations. Primacy generated £0.8 million revenue in 2017 whilst under Microgen's ownership.

Further acquisitions continue to be actively evaluated within T&FA, though fewer acquisition opportunities remain as a result of the acquisitions performed to date. The business is also appraising opportunities which offer the potential to leverage Microgen Financial Systems' existing technology into adjacent sectors.

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). As expected revenue from the Payments business has marginally reduced in 2017 to £1.45 million (2016: £1.49 million) with the prior year benefitting from a number of one-off implementations to the latest version of the software. The Payments business benefits from contracts with over 500 well-diversified clients and high levels of recurring revenue (2017: 90% (2016: 85%)).

Application Management

The Application Management business comprises a number of Microgen-owned and third party systems focused principally on financial services. Consistent with the maturity of the solutions provided by the Application Management business it is expected that revenues in the coming year will decline slightly ahead of the rate experienced in 2017, 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 £5.6 million (2016: £6.2 million).

Summary

The business made good progress in 2017 highlighted by strong organic growth within the core T&FA market and the Primacy acquisition. Investment has been made in the organisation throughout 2017 to enable the business to realise future growth opportunities as they arise and with particularly high levels of recurring revenue the business has excellent future visibility.

Simon Baines

Chief Executive Officer, Microgen Financial Systems

6 March 2018

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 2016 results with 2017 results retranslated at the rates of exchange prevailing during 2016.

Revenue for the year ended 31 December 2017 was £62.6 million (2016: £43.0 million) resulting in an adjusted operating profit of £13.6 million (2016: £9.5 million) representing growth of 46% and 43% respectively. Organic revenue growth, excluding the benefit of recent acquisitions, was 37%. On a constant currency basis revenue for the year was £61.6 million (2016: £43.0 million) with adjusted operating profit of £13.0 million (2016: £9.5 million), growth rates of 43% and 37% respectively. Operating profit on a statutory basis was £11.1 million (2016: £8.2 million) after net non-underlying costs of £2.5 million (2016: £1.3 million). Group overhead costs were £1.8 million (2016: £1.5 million). The Group reported a profit for the year attributable to shareholders of £9.9 million (2016: £6.2 million). In accordance with IFRS, the Board has continued to conclude 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 and development activities in 2017 was £8.6 million (2016: £7.2 million). The number of employees within the Group at 31 December 2017 was 396 (31 December 2016: 312).

Net non-underlying operating costs in 2017 were £2.5 million (2016: £1.3 million). This includes a £1.3 million (2016: £0.8 million) amortisation charge in respect of acquired intangible assets, £0.9 million of acquisition and related integration expenses for both RevStream and Primacy, £0.2 million in respect of fees for the Group's new loan and £0.1 million (2016: £0.4 million) regarding the shareholder-approved option grants in 2013.

The total tax charge for the year is £0.8 million (2016: £1.6 million). After adjusting for the effect of non-underlying and other items, the Group's tax charge represents 21.9% of the Group's adjusted profit before tax (2016: 21.8%) which is the tax rate used for calculating the adjusted earnings per share. The Group benefited from a non-underlying tax credit in 2017 of £1.4 million (2016: £0.2 million) of which £1.1 million is attributable to the reduction following the US tax reforms of the £3.6 million deferred tax liability established on the acquisition of RevStream. Adjusted earnings per share for the year ended 31 December 2017 was 17.1 pence (2016: 12.3 pence). Basic earnings per share for the year was 16.4 pence (2016: 10.6 pence).

The Group has a strong balance sheet with net assets at 31 December 2017 of £53.9 million (2016: £43.4 million), including cash at 31 December 2017 of £19.1 million (2016: £23.8 million), and net funds at 31 December 2017 of £9.1 million (2016: £13.6 million). During the year there were corporate cash outflows of £13.8 million (comprising £3.3 million of dividends and net consideration related to acquisitions of £10.5 million). The net loan balance outstanding was £9.8 million at 31 December 2017 (2016: £10.3 million). Trade and other receivables outstanding at 31 December 2017 have increased to £13.4 million (2016: £8.3 million). The increase in the Group's trade and other receivable is attributable principally to the growth in the Group's revenue, both organically and through the two acquisitions in the year. Cash collection from customers remains strong with the Group's debtor days at 31 December 2017 increasing marginally to 54 (2016: 52). The growth in the Group's revenues has also resulted in deferred income increasing by 28% to £26.3 million at 31 December 2017 (2016: £20.6 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 108% in the year (2016: 138%) with both businesses continuing to benefit from their growing recurring revenue bases with customers typically paying annually in advance.

Philip Wood

Chief Financial Officer

6 March 2018

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 2017.

Results and Dividends

The results for the year are set out in the financial statements and notes that appear on pages 64 to 115. As explained in the Chairman's Statement, the Directors propose the payment of a final dividend of 4.25 pence per share, making a total of 6.25 pence per share for the year (2016 total: 5.0 pence). Subject to shareholder approval, the proposed final dividend will be paid on 25 May 2018 to shareholders on the register at close of business on 4 May 2018.

The ordinary dividends paid in 2017 totalled £3.3 million (2016: £2.5 million).

Principal Activities

The Company is the corporate parent of two information technology businesses, operated as independent business units, which provide business critical software and services. The Company and its subsidiaries together are referred to in this Annual Report as "the Group". The Group's products and services are detailed within the reports on pages 4 and 8.

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 8. 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 (before Non-Underlying Items) 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 several risks. As detailed on page 24 risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate such risks where feasible. The key business risks for the Group are set out in the table on pages 11 and 12.

United Kingdom vote to leave the European Union

The potential longer-term political and economic consequences arising from the United Kingdom's vote to leave the European Union ("EU") remain uncertain. The Board has continued to assess the likely impact of exiting the EU on the Group's business.

The Group is engaged in a number of projects to implement its products with clients based in EU countries, and the Group's consultants and other staff are currently able to travel freely to those countries to participate in those projects without the need to obtain visas. In addition, development work on the products of the Aptitude Software business is carried out principally in Poland, and personnel therefore regularly travel between Poland and the United Kingdom.

A change to the status of the United Kingdom may result in increased restriction on movement of the Group's employees between the United Kingdom, Poland and other EU countries and could lead to additional administrative costs, and other regulatory changes could adversely impact the administration of the Group's operation in Poland. For information, Group revenue from EU countries (excluding the United Kingdom) in 2017 was £7.0 million.

Regulatory changes and macro-economic risks are outside the Group's control, but the Board will continue to monitor the position and believes that the Group is well-placed to identify and react quickly to changes in the operating conditions.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The Directors are also responsible for safeguarding the assets of the Group and Company 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 the Group and Company's performance, business model and strategy.

Responsibility Statement of the Directors in respect of the Annual Report and Accounts

Each of the Directors, whose names and functions are listed in Statement of Directors' Responsibilities confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and Company, 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. This reduced demand could be attributable to a reduction in the number and impact of accounting and/or regulatory changes that have contributed to recent demand within both businesses for their products. Additionally, there is potential for adverse regulatory change in the end market for the Microgen 5Series product, software which is focussed on international financial centres. 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 successfully 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 Group has well-developed product roadmaps for its key software products. The development of the product roadmaps is a result of close liaison with prospects, customers, partners and other organisations. In addition, there is proactive monitoring of forthcoming regulations to identify required changes to existing products and opportunities for the development of new products.
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.	The Group maintains and enhances its competitive position by retaining highly specialised domain knowledge within its chosen markets enabling it to develop, implement and support its market-leading products. The Group constantly seeks to improve the implementation and support services provided to its customers, whilst the Aptitude Technology Centre located in Poland provides the Aptitude Software business with a cost-efficient and highly performing development centre. Market trends are carefully monitored to ensure any threats to the Group's competitive position are identified at the earliest opportunity.
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.	Acquisitions are carefully assessed by the Board in respect of their alignment with the Group's acquisition strategy. The Group benefits from significant acquisition experience following the completion of six acquisitions since 2014 and seeks to perform thorough due diligence, supported by the appropriate use of external advisers, to help identify any unexpected material adverse consequences.
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. In addition, if the Group is unable to assign suitably qualified staff to its implementation projects there is increased risk of project failure with the consequences as outlined in the relevant following section.	The Group has made a number of recent investments in its employees, including the introduction of group-wide share option schemes, improved company-wide communication programmes and staff surveys, as well as a focus on strengthening the culture of both businesses through a number of initiatives.

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 optimise its deployed products or meet its contractual obligations, customer expectations or agreed service 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 producing incorrect results or otherwise fail to process data at sufficient speed.	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 from such defects, as well as a loss in revenue and profit.	Development activities including software quality are reviewed in regular meetings with senior managers. The Group has established robust development and testing processes and has made a number of recent investments to further strengthen this area of the business.
The Group's activities may result in the loss or disclosure of client data.	The Group is implementing its products and services at a number of customers where the Group's employees potentially have access to sensitive client data and sensitive data of clients' own customers. There is a risk that there could be unauthorised access to, or disclosure or loss of, such data, whether inadvertently or maliciously. In such circumstances the Group is likely to be subject to legal liability and/or material damage to its reputation and the client may ultimately be entitled to terminate the contract.	Employees are trained in the importance of data security with background checks performed at recruitment and for certain other roles at regular intervals.

Going Concern and Long-Term Viability Statement

In accordance with provision C.2.2 of the 2016 revision of the UK Corporate Governance Code ("the 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. Although the Group is operating in a net current liability position at the balance sheet date the Group retains significant cash balances benefitting from its annual licence fee model in which the overwhelming majority of its customers pay annually in advance.

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 of the Group's employees at 31 December 2017:

	Board Diversity		**Top Leadership Diversity**		**Total Workforce Diversity**	
	2017	2016	**2017**	2016	**2017**	2016
Men	**5**	6	**11**	11	**297**	238
Women	**1**	0	**2**	1	**99**	74
Men %	**83%**	100%	**85%**	92%	**75%**	76%
Women %	**17%**	0%	**15%**	8%	**25%**	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 was appointed as a Non-Executive Director on 1 April 2017 as a result of which the Board now comprises five male Directors (83%) and one female Director (17%), and the Group's top leadership consists of 11 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.

In last year's Annual Report and Accounts we reported on the introduction of a new Save As You Earn Scheme 2016 and International ShareSave Scheme 2016 to a significant majority of employees across the Group. These schemes encourage the involvement of employees in the Group's performance, and (together with the regular communications referred to above) this assists in achieving a common awareness on the part of employees of the financial and economic factors that affect the Group's performance. In 2017 the Board issued further invitations to employees to join these schemes (including in its newly-acquired businesses in Canada and the USA) and continues to be very encouraged by the high levels of participation amongst employees across the Group.

Corporate Social Responsibility

The Directors recognise that the success of the business is dependent on maintaining a positive corporate culture at all levels of the organisation, and regularly consider the Group's impact on its stakeholders including employees, contractors, customers, suppliers, investors and the wider community. The Board ensures that the decisions made are responsible and ethical by taking into consideration the wider society external to the organisation. The Group is committed to contributing towards creating a sustainable environment and community in which it operates as a business.

In addition, the Group has been working for the past year on a charitable initiative known as "Operation Kanchenjunga", which has built a school in the remote Himalayan village of Hangdewa, Nepal. The Group has provided computers, networking equipment, servers and satellite internet connectivity to the project which aims to bring life-changing technology and IT skills to the 175 children who attend the school. In October 2017 representatives of the Group travelled to Nepal to provide support and mentoring to teachers and students at the school to enable them to make the most of the new equipment, to improve the education of the pupils and thereby to change their life chances.

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 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, the USA, Canada, Cyprus and Serbia. 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 2017 totalled 554 tCO_2e (2016: 664 tCO_2e), consisting of:

- 96 tCO_2e from the combustion of fuel and the operation of any facilities; and
- 458 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	Tonnes of CO_2e 2017	Percentage change to 2016 (%)
CO_2e from the combustion of fuel and the operation of any facilities	Natural Gas	120	134	126	111	91	(18)
	Refrigerant	118	40	20	6	2	(55)
	Owned Vehicles	2	2	2	2	3	52
CO_2e from the purchase of electricity, heat, steam or cooling by the Group for its own use	Purchased electricity[1]	699	725	646	545	458	(16)
	Total	**939**	**901**	**794**	**664**	**554**	**(17)**

[1] This work is partially based on the country-specific CO_2 emission factors developed by the International Energy Agency, © OECD/IEA 2017, but the resulting work has been prepared by Microgen and its advisors and does not necessarily reflect the views of the International Energy Agency.

The carbon intensity ratio for this reporting period was 8.8 tCO_2e (2016: 15.5 tCO_2e) per £1,000,000 turnover.

This is the fifth year that carbon footprint data has been gathered and the Group has seen a continued decrease in emissions, with a 17% reduction in total material emissions between 2016 and 2017.

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	104	102	Mix of supplier fuel mix disclosure emission rate and residual mix factor
Poland	268	310	Supplier fuel mix disclosure
USA	53	53	Average national emissions factor
Canada	8	8	Average national emissions factor
Cyprus	21	25	Supplier fuel mix disclosure
Serbia	4	4	Average national emissions factor
Total	**458**	**502**	

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 collection. Therefore, the reporting period for greenhouse gas emissions is 1 October 2016 to 30 September 2017. 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 (2016: £nil).

Substantial Shareholdings

In accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority. As at 6 March 2018, the Company had been advised of the following notifiable interests in its voting rights:

	Number of Shares	% Issued Share Capital
Old Mutual Plc	9,688,793	15.91%
Schroders Plc	9,677,597	15.89%
Mrs C Barbour, Mr B Barbour & Bank of New York Mellon (Brussels (Pooled))	4,409,689	7.24%
Invesco Limited	3,104,058	5.10%
Cannacord Genuity Group Inc.	3,054,812	5.02%
Aberforth Partners	3,032,132	4.98%
FIL Limited	2,143,504	3.52%
Mr L G Crisp and Mrs H Crisp	2,120,690	3.48%
The Wellcome Trust Limited	2,051,243	3.37%
Herald Investment Management Limited	1,963,889	3.23%

Share Capital

At 6 March 2018 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 23 April 2018 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 24 April 2017 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 5,999,132 ordinary shares of 6 3/7 pence each.

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

The maximum price which could be paid for each share was an amount equal to:

(a) 105% of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; 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 Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments (2273/2003).

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 23 April 2018.

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 115.

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

Barbara Moorhouse (appointed 1 April 2017)

Peter Whiting

Peter Bertram (resigned 24 April 2017)

Biographical details of the current Directors are given on the inside front cover of this Annual Report. The Company's Articles of Association require any directors who were not appointed or reappointed at one of the preceding two annual general meetings to retire and offer themselves for re-election. Accordingly, Philip Wood (who last stood for re-election at the Annual General Meeting held in May 2015) will 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 2017 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 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 80 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 £169,000 at 31 December 2017 (2016: £388,000).

At 31 December 2017, for the Group the average number of days of annual purchases represented by year end creditors was 39 days (31 December 2016: 49 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 has 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 23 to 33, 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 23 April 2018 at the Company's offices at Old Change House, 128 Queen Victoria Street, London EC4V 4BJ. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

By Order of the Board

Mark Heather
Company Secretary

6 March 2018

Statement of Compliance

The Group has applied the main principles set out in the April 2016 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 main principles of the Code is on pages 32 to 33.

The Company has complied with the Code throughout the year ended 31 December 2017, other than the exceptions stated as follows:

B.1.1 – Independence of Non-Executive Directors – Peter Bertram (who retired from the board on 24 April 2017) had served on the board for more than 9 years since his appointment in October 2006 and was therefore not treated as independent for the purposes of the Code. As previously stated, the Board had 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 retired from the Board as planned with effect from the close of the Company's Annual General Meeting in April 2017. Upon his retirement the Company became compliant with Code Provision B.1.1.

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 in addition to the Company Chairman. For the first part of the year until 1 April 2017, the Company's board 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 was not treated as independent for the purposes of the Code because he had 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) joined the Board as a Non-Executive Director on 1 April 2017, following which the board included two independent Non-Executive Directors in addition to the independent Non-Executive Chairman and was therefore compliant with Code Provision B.1.2.

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 2017 until his retirement on 24 April 2017) had served on the board for more than 9 years and was therefore not treated as independent for the purposes of the Code. This meant that, for the first part of the year, the Nomination Committee, Audit Committee and Remuneration Committee 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 was not treated as independent for the purposes of the Code. Consequently, the composition of those committees did not meet the requirement for at least two independent Non-Executive Directors (excluding the Company Chairman). For the reasons stated above, the Board had considered it important 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) joined 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 became compliant with provisions B.2.1, C.3.1 and D.2.1 of the Code.

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 which is led by a separate Nomination Committee. 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.

The Board considers that all of the current 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 2017 each of Ivan Martin and Peter Whiting served on the Nomination, Remuneration and Audit Committees. Barbara Moorhouse served on the Nomination, Remuneration and Audit Committees from her appointment on 1 April 2017. Peter Bertram served on the Nomination, Remuneration and Audit Committees until his retirement from the Board in April 2017. 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 is Chair of the Nomination Committee. During the year, the Committee also comprised Peter Whiting, Barbara Moorhouse (from her appointment to the Board in April 2017) and Peter Bertram (until his retirement from the Board in 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 twice, with all members present.

The Committee's key focus during the initial part of the year was overseeing the completion of the process for the appointment of a new Non-Executive Director. As reported in the 2016 Annual Report and Accounts, the Committee had 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. In the early part of 2017 the Committee recommended to the Board the appointment of Barbara Moorhouse, who was subsequently appointed on 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 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 has not only increased the diversity of the Board as regards gender, but has also brought valuable new skills and experience which 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 (following which the Committee concluded that it continued to operate effectively)
- 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 2017 AGM and recommended Directors for re-election at the 2017 AGM.

The Committee's priority for 2018 will be to continue its work in relation to succession planning and executive talent management.

Remuneration Committee

Peter Whiting is Chair of the Remuneration Committee. During the year, the Committee also comprised Ivan Martin, Barbara Moorhouse (from her appointment to the Board in April 2017) and Peter Bertram (until his retirement from the Board in April 2017). The Directors' Remuneration Report appears on pages 34 to 56.

Audit Committee

Barbara Moorhouse, a Fellow of the Chartered Institute of Management Accountants (CIMA), took on the role of Chair of the Audit Committee on 24 April 2017. During the year the Committee also comprised Ivan Martin, Peter Whiting and Peter Bertram (who was Chair of the Committee until his retirement from the Board on 24 April 2017). This year's Audit Committee Report outlines our activities and areas of focus during the year.

The Committee provides support to the Board in meeting its statutory responsibilities as set out in the UK Corporate Governance Code (issued April 2016). This updated edition of the Code requires that Audit Committees have competence relevant to the sector in which the Company operates. The Board's view is that the skills and experience of the Audit Committee members are very much relevant to Microgen's business, as evidenced by the biographies within the Directors, Officers and Advisors page at the front of this report.

The Audit Committee also 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, risk management, 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, having first been appointed to the role in respect of the 2013 financial year audit will be replaced for the 2018 financial year audit pursuant to these rotation requirements.

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 2017 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 29. The Executive Directors attended the Audit Committee meetings throughout 2017 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 certain financial 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.

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.

Significant Judgements
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 significant 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 pages 73 to 75 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. This project has continued throughout 2017 and the Audit Committee is 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

Each of the Aptitude Software and Microgen Financial Systems businesses operate in a number of territories which increases the complexity of the Group's tax affairs. Senior Management provide regular updates of the Group's tax status to the Board and Audit Committee for consideration. The Audit Committee is currently satisfied with the tax position of the Group.

Establishment of Internal Audit / Assurance Programme

The growth of the Group has continued in 2017, including an increase in the international activities of both Aptitude Software and Microgen Financial Systems. The Board's focus on monitoring and mitigating risks continues and, following the Group's increase in size and complexity, will now be strengthened by an internal audit / assurance function to focus on key areas of risk, both financial and operational. The programme will be known within each of the two operating businesses as the "Aptitude Software Process Improvement Programme" and the "Microgen Financial Systems Process Improvement Programme", reflecting the benefits the Group expects to receive from the programme.

The Audit Committee will consult with the management of the operating businesses to determine both the areas of focus and the scope of work of the programmes. The programmes will include the identification and implementation of enhanced controls for key areas of risk in addition to the testing of the operation of controls. The Group's internal resources will be complemented by experienced external resources where appropriate. The results of all work undertaken under the programme will be presented to the Audit Committee. All parties undertaking related work (whether internal or external) will be encouraged to raise issues to the Audit Committee as appropriate.

Assessment of the impact of the introduction of IFRS 15

IFRS 15 "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to the 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 is effective for annual periods beginning on or after 1 January 2018.

The Audit Committee has provided oversight for a project to assess the expected impact of IFRS 15 on the Group. The project has been supported by a third party adviser in determining the detailed application of IFRS 15 on how the Group will recognise revenue with effect from 1 January 2018 together with extensive discussion with the auditors. The Audit Committee has reviewed the progress of the project at regular intervals and the expected impact of IFRS 15 is described on pages 71 and 72.

Audit Committee Evaluation

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 and its Committees (at which only certain directors are required to attend) 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 2017	10	4	9	2
Ivan Martin	10/10	4/4	9/9	2/2
Simon Baines	10/10	4*/4	9*/9	2*/2
Tom Crawford	10/10	4*/4	9*/9	2*/2
Philip Wood	10/10	4*/4	9*/9	2*/2
Peter Whiting	10/10	4/4	9/9	2/2
Barbara Moorhouse	8/8	3/3	7/7	0/0
Peter Bertram	2/2	1/1	2/2	1/1

* Executive Directors attended some committee meetings by invitation. In the case of meetings of the Remuneration Committee, attendance was for only part of the meetings in question, and the Executive Directors left the meetings when discussions about their remuneration were taking place.

The above table details attendance at scheduled meetings as a proportion of the total number of meetings held. Peter Bertram retired during the year and Barbara Moorhouse was appointed during the year. Accordingly, 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 8 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/or 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 18 and 19.

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 business-critical software and services.

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 13 to 14. The Group is committed to mitigating risks arising wherever possible and during the year has engaged in a significant review and update to the Group Risk Register. The Board consider that internal controls, rigorously applied and monitored, are an essential tool in mitigating risks.

The key elements of Group internal control, which have been effective during 2017 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 tax, treasury and legal matters;

- Defined investment control guidelines and procedures; and
- Periodic reviews by the Audit Committee of the Group's systems and procedures.

Most 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 updated Group Risk Register, and the operation and effectiveness of this framework of internal control for the year ended 31 December 2017, and up to the date of approval of the Annual Report.

Internal Audit

Following the year end the Group has decided to establish an outsourced internal audit function, further details of which are set out on page 28.

Corporate Governance
Statement

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (April 2016 Version)		
	Main 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 has an independent Non-Executive Chairman with the two Chief Executive Officers who are responsible for the running of the Group's 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, including 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. As stated previously, Peter Bertram had served on the board for more than 9 years since his appointment in October 2006 and was 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 retired from the Board as planned at 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 23 Peter Bertram was not treated as being independent for the purposes of the Code because he had served on the Board for more than 9 years. Peter Bertram retired from the Board in April 2017. However, notwithstanding this, all of the non-executive Directors (including Peter Bertram until his retirement) 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 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 23.
3	**Commitment** All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	The other significant commitments of the Chairman and the Non-Executive Directors 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 another company. None of the Executive Directors currently holds any other such role. 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 compliant 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. A detailed review of the Group Risk Register has taken place during 2017 and 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 23, the Audit Committee consists of all non-executive Directors and meets at least three times a year. Executive Directors were invited to attend in 2017 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 and that all members have competence and experience relevant to the sector in which the Company operates.
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 parts of the Committee's meetings in 2017. 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 23.
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/or the Executive Directors meet with key shareholders. After the release of the 2017 results the Chairman and/or 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 2017. 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.

Our Directors' Remuneration Policy

Our Directors' Remuneration Policy (which is set out below at Part A of this report) was approved by shareholders at the 2017 AGM with 95.25% of the votes cast in favour of it. We were also pleased to see strong support for the Annual Report on Remuneration at the 2017 AGM, with 99.52% of the votes being in favour of it. The Remuneration Committee has considered the policy during 2017 and concluded that it remains appropriate. Therefore, that policy will continue to apply in 2018.

Executive Director Remuneration in 2017

Salaries

We reported in the 2016 Directors' Remuneration Report that Executive Director salaries were increased by 3% with effect from 1 January 2017, reflecting wider workforce increases. During 2017, the Committee undertook a further review of the salaries of Tom Crawford and Philip Wood having regard to the recent rapid growth of the Company and, in particular, the increase in revenue generated by the Group's Aptitude Software business in the first half of the year, driven in part by sales in new geographical and vertical markets, and the ongoing development of our partner network. These changes naturally had an impact on the scale and complexity of the Group's operations and, while salaries are ordinarily reviewed on an annual basis, the Committee considered that it was appropriate in the circumstances to carry out an interim review. In the light of these changes to the Group and the consequent significantly increased responsibilities for Tom Crawford (Chief Executive Officer, Aptitude Software) and Philip Wood (Chief Financial Officer), and the risk of loss of key individuals to competitors, the Committee took the view that it was appropriate to make the following salary increases with effect from 1 July 2017.

Executive Director	Salary at 1 January 2017	Salary from 1 July 2017	Percentage Increase
Tom Crawford	£216,300	£235,000	9%
Philip Wood	£190,550	£205,000	8%

For 2018, the Executive Directors' salary increases are in line with the wider workforce, as noted below. No mid-year review is expected and, in future, we expect salary increases for Executive Directors typically to be in line with the increases awarded to the wider workforce. The Executive Directors' bonuses for 2017 are based on salary earned in the year (and not only on the higher rate applying for the second half of the year).

Variable remuneration outcomes

The overall performance of the Group in 2017 is discussed in the Strategic Report on pages 2 to 10. Reflecting that performance, the Executive Directors earned bonuses for 2017 of between 35.25% and 86.25% of salary based on performance measures aligned to the Group's strategy. Further information is given on page 46.

No long-term incentives were capable of vesting by reference to a performance period ending in 2017.

Our approach to Executive Director remuneration in 2018

Executive Director salaries have been increased with effect from 1 January 2018 by 3%, reflecting wider workforce increases. The overall maximum bonus opportunity will remain at 100% of salary, reflecting the policy which was approved at the 2017 AGM. 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 performance share plan which was approved by shareholders 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 based on EPS and TSR; further information is included on page 49.

Reporting and policy requirements

There follows below:

- Part A being the Directors' Remuneration Policy which was approved by shareholders at the 2017 Annual General Meeting, amended as noted in the introduction to the Policy; 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 2017 and how the Directors' Remuneration Policy will be operated for the year commencing 1 January 2018. This will be subject to an advisory vote at the 2018 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.

Directors' Remuneration
Report

THIS PART OF THE REPORT SETS OUT THE COMPANY'S DIRECTORS' REMUNERATION POLICY WHICH WAS APPROVED BY SHAREHOLDERS AT THE ANNUAL GENERAL MEETING HELD ON 24 APRIL 2017, AND WHICH IS PROVIDED FOR INFORMATION ONLY. THE POLICY AS IT APPEARS BELOW HAS BEEN UPDATED FOR EASE OF READING ONLY, AND THE CHARTS ILLUSTRATING THE APPLICATION OF THE POLICY IN 2017 HAVE BEEN UPDATED TO PROVIDE AN ESTIMATE OF POTENTIAL REMUNERATION FOR EXECUTIVE DIRECTORS IN 2018. A VERSION OF THE ORIGINAL TEXT AND CHARTS CAN BE FOUND IN THE ANNUAL REPORT 2016 AT WWW.MICROGEN.COM. THIS DIRECTORS' REMUNERATION POLICY IS NOT SUBJECT TO A VOTE AT THE ANNUAL GENERAL MEETING TO BE HELD ON 23 APRIL 2018.

A. DIRECTORS' REMUNERATION POLICY ("POLICY")

This part of the Report sets out the Company's Directors' Remuneration Policy, which was approved by shareholders at the 2017 Annual General Meeting, and took binding effect from the close of that meeting. This part of the Report is unaudited.

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; and
- 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 applies 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 applies 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 (Updated)

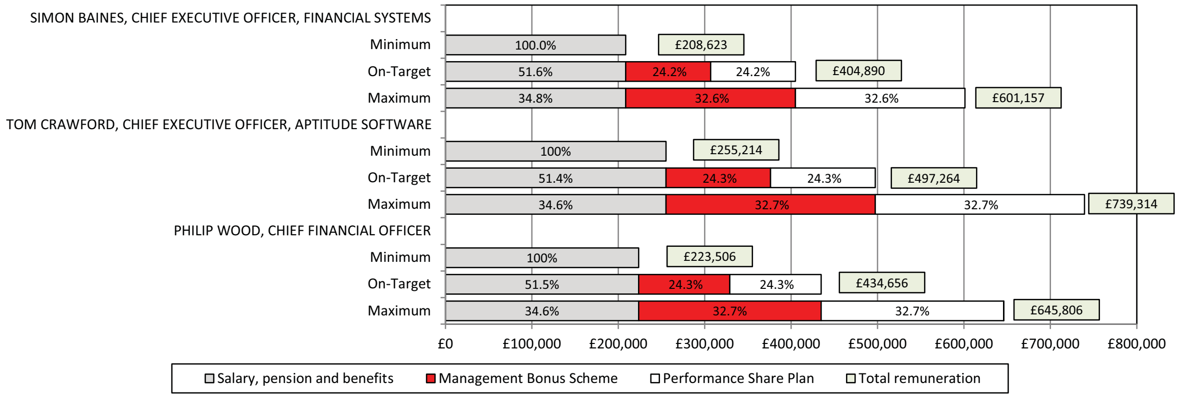
The following chart sets out an illustration in line with the Policy for the Executive Directors set out above and provides an estimate of the potential remuneration in 2018 for the Executive Directors, and the potential split between the different elements of remuneration under three different performance 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 2018 and the 2017 benefits figure from the single total figure of remuneration table on page 46. 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 pay-out 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 pay-out 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 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 an 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 23. 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 or 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	21 October 2015	31 December 2018
Peter Bertram (retired on 24 April 2017)	3 October 2006	N/A
Peter Whiting	2 February 2012	30 April 2020
Barbara Moorhouse (appointed 1 April 2017)	27 February 2017	30 April 2020

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 2017. 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 2017

The membership of the Remuneration Committee as at 31 December 2017 comprised Peter Whiting (Committee Chair), Barbara Moorhouse (who joined the Committee on 1 April 2017) and Ivan Martin.

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 29.

Salary Increases during 2017

Each Executive Director's salary was increased by 3% with effect from 1 January 2017, reflecting wider workforce increases. For the reasons referred to in the Committee Chairman's statement on page 34, the salaries of Tom Crawford and Philip Wood were subject to a further exceptional increase with effect from 1 July 2017.

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 2017 and the prior year.

	Simon Baines		Tom Crawford		Philip Wood	
	2017	2016	**2017**	2016	**2017**	2016
	£	£	**£**	£	**£**	£
Basic Salary	**190,550**	185,000	**225,650**	210,000	**197,775**	185,000
Taxable benefits*	**1,173**	1,316	**469**	526	**1,173**	1,316
Pension**	**11,183**	10,596	**12,695**	12,096	**11,183**	10,596
Management Bonus***	**67,169**	92,500	**194,623**	194,250	**152,049**	148,000
Long Term Incentives****	**–**	852,241	**–**	852,241	**–**	852,241
Total	**270,075**	1,141,653	**433,437**	1,269,113	**362,180**	1,197,153

* Taxable benefits consist primarily of private healthcare insurance.
** The Company paid £11,183 on behalf of Simon Baines and Philip Wood respectively (2016: £10,596 for each of them) into a self-invested personal pension scheme. The Company paid £12,695 to Tom Crawford (2016: £12,096) by way of a pension allowance, from which tax and national insurance were deducted at the appropriate rates.
*** Payment for performance during the year under the Management Bonus Scheme – further information is given below.
**** No long-term incentives were capable of vesting by reference to a performance period ending in 2017.

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) who served during the year ended 31 December 2017 and the prior year:

	Ivan Martin		Peter Whiting		Barbara Moorhouse*		Peter Bertram**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£	£	**£**	£	**£**	£	**£**	£
Basic Salary	**130,000**	125,000	**42,000**	40,000	**31,500**	–	**13,085**	40,000
Committee Fees	**–**	–	*****11,500**	6,958	**5,144**	–	**2,336**	7,500
Other Fees	**–**	–	******2,500**	–	**–**	–	**–**	–
Total	**130,000**	125,000	**56,000**	46,958	**36,644**	–	**15,421**	47,500

* Barbara Moorhouse was appointed to the Board on 1 April 2017
** Peter Bertram retired from the Board on 24 April 2017
*** Peter Whiting's Committee fees consist of £6,500 in respect of his Chairmanship of the Remuneration Committee and £5,000 in respect of his holding the office of Senior Independent Director
**** The other fee paid in 2017 to Peter Whiting was due to the increased time requirement pursuant to the recruitment of a new non-executive director to the Board.

Incentive outcomes for the year ended 31 December 2017 (audited)

Management Bonus Scheme in respect of 2017 performance

The 2017 Management Bonus Scheme for Executive Directors is determined by the Committee by reference to the Group's financial performance (as regards 75% of the opportunity) and the achievement by each Executive Director of non-financial performance measures (as regards 25% of the opportunity) during 2017. The maximum bonus opportunity for each Executive Director was 100% of salary.

Financial performance measures (75% 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	Recurring revenue base in respect of the 5Series product	33.33% of the financial measures opportunity	£4.32m	£4.57m	£5.07m	£4.55m	11.5%
	Operating profit (pre-bonus accrual)	33.33% of the financial measures opportunity	£7.2m	£7.35m	£7.65m	£7.32m	10.0%
	Quantum of acquired revenue (annualised)	33.33% of the financial measures opportunity	£1.0m	£2.0m	£3.0m	£1.2m	2.5%
Tom Crawford	Recurring revenue base (excluding effect of acquisitions)	50% of the financial measures opportunity	£14.5m	£15.0m	£16.0m	£16.0m	37.5%
	Operating Profit (pre-bonus accrual)	50% of the financial measures opportunity	£5.8m	£6.6m	£8.2m	£9.7m	37.5%

Reflecting his Group-wide position, Philip Wood's bonus in respect of the financial performance measures was calculated by reference to the bonus earned by Simon Baines on the basis of financial performance measures related to Microgen Financial Systems and the bonus earned by Tom Crawford on the basis of financial performance measures related to Aptitude Software, with the weighting between the Microgen Financial Systems measures and Aptitude Software measures determined by the Committee based on its assessment of the degree of support given to each business. Accordingly, Philip Wood earned a bonus of 65.63% of salary in respect of financial performance measures.

Non-financial performance measures (25% 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 by the Remuneration Committee against a number of metrics reflecting the Board's key strategic goals for the year which have been summarised below. The committee assessed each executive Director individually against each metric. It became apparent that the overall outcome for each of the three was similar. The committee therefore decided to award the same to each, which it believes is consistent with both the shared strategic objectives and the close collaboration of the executive team.

Executive Director	Summary of Measure	Performance Achieved	Bonus Earned (% of salary)
Simon Baines	Strengthen management team to improve efficiency of integration of material acquisitions	Fully achieved	11.25%
	Continue to grow the Microgen 5Series customer base and recurring revenue income	Fully achieved	
	Demonstrate progress in securing multi-year commitments from application management customer base	Partially achieved	
Tom Crawford	Strengthen relationships with customers implementing Aptitude Revenue Recognition Engine	Partially achieved	11.25%
	Progress towards launching a new specialised finance application	Exceeded	
	Progress towards entering a new market sector	Fully achieved	
Philip Wood	Execution of the acquisition strategy in Microgen Financial Systems	Exceeded	11.25%
	Successful, on-time and on-budget implementation of a new ERP system in the finance department	Partially achieved	
	Provision of legal and commercial assistance to the Aptitude Software business	Exceeded	

Accordingly, the overall bonuses earned were

Executive Director	Bonus earned (% of salary)	Bonus earned
Simon Baines	35.25%	£67,169
Tom Crawford	86.25%	£194,623
Philip Wood	76.88%	£152,049

Share awards granted during the year (audited)

On 10 August 2017 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 100% of salary, 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	43,208	100% of salary	£190,547	25%
Tom Crawford	53,287	100% of salary	£234,996	25%
Philip Wood	46,485	100% of salary	£204,998	25%

* Based on a share price of £4.41, being the average of the mid-market closing share price on the three days prior to the date of grant.

The vesting of these options is subject to the satisfaction of performance conditions based on:

(a) as regards 50% the shares subject to the options, the annual compound growth in the Company's Earnings Per Share (EPS) measured over the period of three financial years commencing on 1 January 2017, as follows:

Percentage of the options subject to the EPS performance condition that vests	Annual compound growth in EPS
0%	Less than 22%
25%	22%
Determined on a straight-line basis between 25% and 100%	Between 22% and 25%
100%	Equal to or greater than 25%

and

(b) as regards the other 50% of the shares subject to the options, the Company's Total Shareholder Return measured over the period of three financial years commencing on 1 January 2017, compared with the Total Shareholder Return (TSR) of a comparator group consisting of the companies constituting the FTSE SmallCap Index (excluding investment trusts) as follows:

Percentage of the options subject to the TSR performance condition that vests	Rank of the Company's TSR against the TSR of the members of the comparator group
0%	Below median
25%	Median
Determined on a straight-line basis between 25% and 100%	Between median and upper quartile
100%	Upper quartile or above

For these purposes, the Company's TSR will be calculated by reference to the average net return index for the Company's shares over each weekday (excluding Saturdays and Sundays) during:

- the one-month period ending on the day before the start of the three-year performance period; and
- the one-month period ending on the last day of the performance period.

The awards are also subject to a further underpin condition. No element of any award will vest unless the Committee determines that the level of vesting reflects the overall financial performance of the Group over the performance period.

These awards are subject to a two-year holding period following the end of the performance period, at the end of which they can be exercised.

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 2018 (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 to Executive Directors is within the range of increases awarded to the wider workforce.

Executive Directors	Basic salary as at 31 December 2017	Basic salary from 1 January 2018	Percentage Increase on 1 January 2018
Simon Baines	£190,550	£196,267	3%
Tom Crawford	£235,000	£242,050	3%
Philip Wood	£205,000	£211,150	3%

Management Bonus Scheme

The maximum bonus opportunity for Executive Directors in 2018 will remain unchanged from the opportunity in 2017, 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 a financial underpin. In the view of the Committee the measures and targets are commercially sensitive as they give competitors information in relation to the Company's targets and plans. Information will be disclosed when no longer considered commercially sensitive, as with the disclosure of the 2017 bonus outturn on pages 46 to 48.

Long-term incentives
Awards under the 2016 PSP will be granted to Executive Directors in 2018. The awards will be granted at the level of up to 100% of salary. Performance measures will be based on EPS and TSR as with the awards granted in 2017, with the measures again weighted 50:50. As with the awards granted in 2017, the TSR performance measures will compare Microgen's TSR performance with a comparator group consisting of the FTSE SmallCap Index (excluding investment trusts), with 25% of the TSR element vesting for performance at median, rising to 100% for upper-quartile performance. The EPS performance targets will be determined before the awards are granted and disclosed both at grant and in the 2018 Directors' Remuneration Report. Targets will be set to ensure that full vesting requires the achievement of stretching levels of performance, with threshold performance delivering 25% vesting. The awards will be subject to a two-year holding period following the end of the performance period, at the end of which they can be exercised.

Non-Executive Director fees
With effect from 1 January 2018, the fees payable to Non-Executive Directors have increased as follows:

	Fee at 1 January 2017 £	Fee at 1 January 2018 £
Basic Non-Executive Director Fee	42,000	43,300
Audit Committee Chair Fee	7,500	7,700
Remuneration Committee Chair Fee	6,500	6,700
Senior Independent Director Fee	5,000	5,200

With effect from 1 January 2018 the fee paid to Ivan Martin, Non-Executive Chairman, increased from £130,000 to £134,000, an increase of 3.1%.

The increases in the Non-Executive Director and Non-Executive Chairman fees are within the range of increases awarded to the wider workforce.

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. For the purposes of this disclosure, remuneration comprises salary, benefits (excluding pension) and variable pay paid in the year only.

	Change in remuneration from 2016 to 2017			
	Simon Baines	Tom Crawford	Philip Wood	Other employees*
Salary	3%	7%	7%	5%
Taxable benefits	(11%)	(11%)	(11%)	(37%)
Single-year variable	(27%)	–	3%	115%

* 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 2016 to the financial year ended 31 December 2017.

	% increase (decrease)	**2017 £000**	2016 £000
Return to shareholders in year	32%	**3,345**	2,540
Employee remuneration	37%	**31,555**	23,005

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 nine years ended 31 December 2017. The Committee considers that the FTSE Fledgling Index is the most appropriate comparison across the period 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

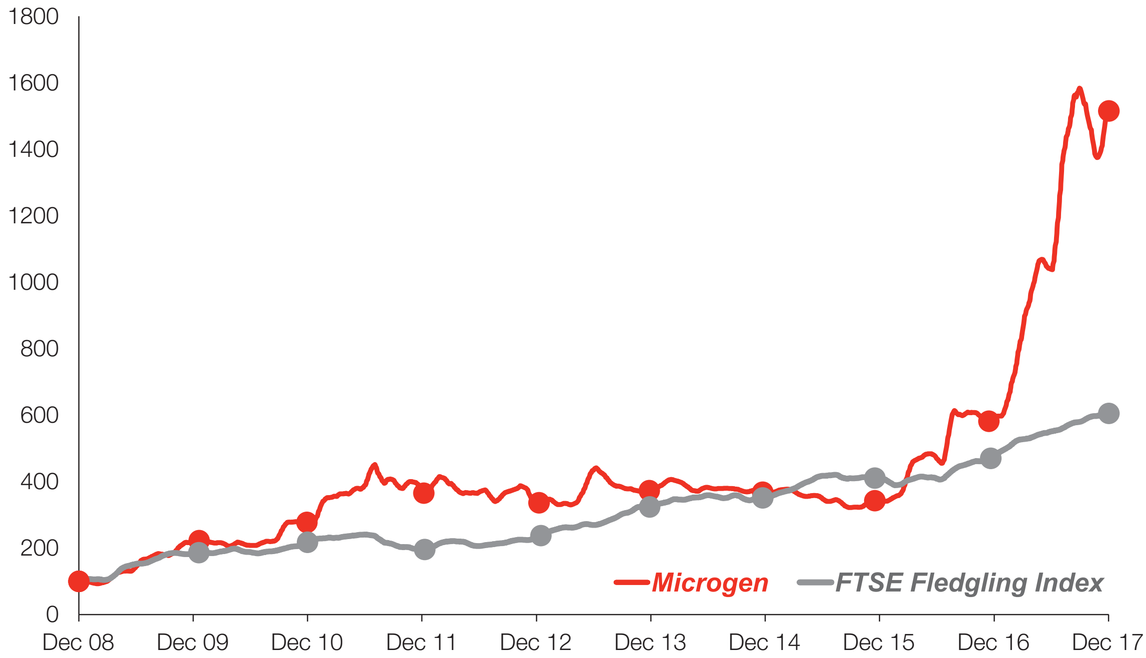


Table of historic remuneration (audited)

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(s) for each of the years from 2009 - 2017 (inclusive).

Year		Total Remuneration	Bonus Award as a percentage of maximum opportunity	Long term incentives vesting as a percentage of maximum opportunity
2017	Simon Baines (Chief Executive Officer, Microgen Financial Systems)	£270,075	35.25%	n/a
	Tom Crawford (Chief Executive Officer, Aptitude Software)	£433,437	86.25%	n/a
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 2017 (or, if earlier, the date of their cessation of employment) were as follows:

	Ordinary shares of 6 3/7 pence at 31 December 2017 (or, if earlier, the date of their cessation of employment)	Ordinary shares of 6 3/7 pence at 31 December 2016
Ivan Martin	**200,000**	200,000
Simon Baines	**100,000**	9,523
Tom Crawford	**380,000**	309,551
Philip Wood	**200,000**	110,635
Peter Bertram	**35,794**	35,794
Peter Whiting	**18,666**	18,666
Barbara Moorhouse	**–**	n/a

There have been no changes to Directors' shareholdings since 31 December 2017. 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.

Executive Directors are required to retain half of any shares acquired on the exercise of options under the Company's share plans until such time as their shareholding has a market value equal to 100% of salary. Following the exercise by each Executive Director of options under the Company's share plans on 16 March 2017, each Executive Director retained a number of the shares arising on exercise, which resulted in the market value of each of their shareholdings at that date exceeding their respective salaries, therefore meeting the minimum shareholding requirement. Subsequently, on each occasion that any Executive Director exercises options under the Company's share plans, the value of their shareholding will be assessed at that point. If the value of his or her shareholding (based on the closing mid-market share price at that date) is not equal to or higher than his or her base salary on that date, then the Executive Director will be required to retain such of the shares arising from the exercise of the options (but not exceeding 50% of the shares arising) as are necessary to increase the value of his or her shareholding to equal his or her base salary on that date.

Directors' interests under Company share plans (audited)

On 16 March 2017 each of the executive Directors exercised a number of options under the Company's share plans. The table below shows the interests of each Director who served during 2017 as at 31 December 2017 in the Company's share plans.

Director	Grant	Shares subject to award as at 1 January 2017	Granted in 2017	Exercised in 2017	Lapsed in 2017	Shares subject to awards as at 31 December 2017	Status
Simon Baines	2013*	492,625	–	(320,206)	–	172,419	Vested
	2015**	150,000	–	–	–	150,000	Unvested, subject to performance conditions
	2016**	191,710	–	–	–	191,710	Unvested, subject to performance conditions
	2017***	–	43,208	–	–	43,208	Unvested, subject to performance conditions
		834,335	**43,208**	**(320,206)**	**–**	**557,337**	
Tom Crawford	2013*	312,625	–	(140,206)	–	172,419	Vested
	2015**	150,000	-	–	–	150,000	Unvested, subject to performance conditions
	2016**	217,617	–	–	–	217,617	Unvested, subject to performance conditions
	2017***	–	53,287	–	–	53,287	Unvested, subject to performance conditions
		680,242	**53,287**	**(140,206)**	**–**	**593,323**	
Philip Wood	2013*	492,625	-	(320,206)	–	172,419	Vested
	2015**	150,000	–	–	–	150,000	Unvested, subject to performance conditions
	2016**	191,710	–	–	–	191,710	Unvested, subject to performance conditions
	2017***	–	46,485	–	–	46,485	Unvested, subject to performance conditions
		834,335	**46,485**	**(320,206)**	**–**	**560,614**	

* The awards granted in 2013 vested in 2016. 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 and 2016 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 periods for the awards granted in 2015 and 2016 are 3 years commencing on 19 October 2015 and 3 August 2016 respectively.
The reference point for the Company's TSR for the 2015 awards will be the average closing share price over the 30 calendar days ending on the first and last day of the performance period.
The reference point for the Company's TSR for the 2016 awards will be the average closing share price over the 10 business days ending on the business day prior to the date of grant and over the 10 business days ending on the 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 2017 are subject to performance conditions as disclosed on page 49.

Advisors (audited)

In fulfilling its role the Committee seeks professional advice when considered appropriate to do so. The services of Deloitte LLP, independent advisors 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 2017 were £15,225. After careful consideration the Committee is satisfied that the advice provided by Deloitte LLP is independent.

Deloitte LLP is a founder member of the Remuneration Consultants Group and adheres 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 24 April 2017 the results regarding resolutions on remuneration matters were as follows:

Approval of the Directors' Remuneration Policy	**Total number of votes**	**% of votes cast**
For (including discretionary)	42,630,950	95.25%
Against	1,914,484	4.28%
Total votes cast (excluding withheld votes)	**44,545,434**	**99.53%**
Votes withheld	13,516	
Total votes cast (including withheld votes)	**44,558,950**	

Approval of the Directors' Remuneration Report for the year ended 31 December 2016	**Total number of votes**	**% of votes cast**
For (including discretionary)	44,545,665	99.52%
Against	621	0.01%
Total votes cast (excluding withheld votes)	**44,546,286**	**99.53%**
Votes withheld	13,516	
Total votes cast (including withheld votes)	**44,559,802**	

Approval of the Microgen plc Save As You Earn Scheme 2016 and the International Sharesave Plan	**Total number of votes**	**% of votes cast**
For (including discretionary)	42,558,136	99.53%
Against	0	0%
Total votes cast (excluding withheld votes)	**42,558,136**	**99.53%**
Votes withheld	11,666	
Total votes cast (including withheld votes)	**42,569,802**	

Approval of the Microgen plc Performance Share Plan 2016	**Total number of votes**	**% of votes cast**
For (including discretionary)	42,043,504	93.93%
Against	2,504,399	5.60%
Total votes cast (excluding withheld votes)	**44,547,903**	**99.53%**
Votes withheld	11,899	
Total votes cast (including withheld votes)	**44,559,802**	

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

The Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 6 March 2018 and signed on its behalf by:

Peter Whiting
Chair of the Remuneration Committee

6 March 2018

Report on the audit of the financial statements

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 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company balance sheets as at 31 December 2017; the consolidated income statement and consolidated statement of comprehensive income, the Group and parent company statements of cash flows, the consolidated statement of changes in shareholders' equity and the Company statement of changes in shareholders' equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality	•	Overall Group materiality: £599,000 (2016: £372,000), based on 4.5% of profit before tax adjusted for certain items including acquisition related costs, credit facility costs, the amortisation of intangible assets and expenses related to certain share options granted in 2013 under the 2006 Performance Share Plan
	•	Overall Company materiality: £450,000 (2016: £353,000), based on 1% of total assets adjusted down for an allocation of component materiality
Audit scope	•	We conducted an audit of full year financial information for eight reporting units, with specific tests undertaken on a further four reporting units and at the Group's head office.
	•	The reporting units where we performed audit work accounted for 86% of Group revenue, 78% of Group profit before tax and all material balance sheet items
Areas of focus	•	Risk of fraud or error in revenue recognition (Group) – We considered and tested the recognition of revenue from sales of software licenses and related services

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures and underlying supporting documentation, review of correspondence with legal advisors and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of Fraud or error 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 and the judgements made by management over the extent to which obligations had been met in relation to each contract. This included considering judgemental deferrals made by management in respect of any future performance obligations. - 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 amount of revenue recognised and the level of deferred revenue for these arrangements in light of amounts paid, current status of the contracts and ongoing obligations. We challenged management and sought corroborating evidence for the key judgements regarding the deferral of revenue in respect of future obligations. 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 structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

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 twenty one 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 twenty one reporting units, we identified eight 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 four further reporting units and on selected consolidation adjustments made in relation to individually significant balances. These included procedures on the specific financial statement line items shown as non-underlying items, income tax expense, goodwill, intangible assets, deferred tax, 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 86% of Group revenue, 78% 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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£599,000 (2016: £372,000).	£450,000 (2016: £353,000).
How we determined it	4.5% of profit before tax, adjusted for certain items including acquisition related costs, credit facility costs, amortisation of intangible assets and expenses related to share options granted in 2013 under the 2006 Performance Share Plan	1% of total assets adjusted down for an allocation of component materiality
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the Group. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Company's principal activity as a holding company. We have adjusted this down to £450,000 on the basis of an appropriate component materiality for the group audit.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £137,000 and £450,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £26,500 (Group audit) (2016: £18,900) and £22,500 (Company audit) (2016: £17,600) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

<u>Going concern</u>
In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Report of the Directors and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 23 to 33) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 23 to 33) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group We have nothing material to add or draw attention to regarding: • The Directors' confirmation on page 12 of the Annual Report 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. • The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. • The Directors' explanation on page 15 of the Annual Report 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 to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)
Other Code Provisions We have nothing to report in respect of our responsibility to report when: • The statement given by the Directors, on page 12, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the 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 obtained in the course of performing our audit. • The section of the Annual Report on page 26 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. • The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
Directors' Remuneration In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 21 March 1996 to audit the financial statements for the year ended 31 October 1996 and subsequent financial periods. The period of total uninterrupted engagement is 21 years and 2 months, covering the years ended 31 October 1996 to 31 December 2017.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
6 March 2018

Consolidated
Income Statement *for the year ended 31 December 2017*

	Note	Year ended 31 Dec 2017 Before non-underlying items	Year ended 31 Dec 2017 Non-underlying items	Year ended 31 Dec 2017 Total	Year ended 31 Dec 2016 Before non-underlying items	Year ended 31 Dec 2016 Non-underlying items	Year ended 31 Dec 2016 Total
		£000	£000	**£000**	£000	£000	**£000**
Revenue	1	62,640	–	**62,640**	42,988	–	42,988
Operating costs	1, 2	(49,019)	(2,541)	**(51,560)**	(33,463)	(1,313)	(34,776)
Operating profit	2	13,621	(2,541)	**11,080**	9,525	(1,313)	8,212
Finance income	4	13	–	**13**	66	–	66
Finance costs	4	(316)	–	**(316)**	(397)	–	(397)
Net finance costs		(303)	–	**(303)**	(331)	–	(331)
Profit before income tax		13,318	(2,541)	**10,777**	9,194	(1,313)	7,881
Income tax expense	5	(2,288)	1,447	**(841)**	(1,828)	190	(1,638)
Profit for the year		11,030	(1,094)	**9,936**	7,366	(1,123)	6,243
Earnings per share							
Basic	6			**16.4p**			10.6p
Diluted	6			**15.6p**			10.0p

The accounting policies and notes on pages 70 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement
Of Comprehensive Income *for the year ended 31 December 2017*

	Note	Group Year ended 31 Dec 2017 £000	Group Year ended 31 Dec 2016 £000
Profit for the year		**9,936**	6,243
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value gain on hedged financial instruments	21	**148**	133
Currency translation difference		**(40)**	95
Other comprehensive income for the year, net of tax		**108**	228
Total comprehensive income for the year		**10,044**	6,471

The accounting policies and notes on pages 70 to 115 are an integral part of these consolidated financial statements.

Balance Sheets *as at 31 December 2017*

	Note	Group As at 31 Dec 2017 £000	Group As at 31 Dec 2016 £000	Company As at 31 Dec 2017 £000	Company As at 31 Dec 2016 £000
ASSETS					
Non-current assets					
Property, plant and equipment	10	**1,825**	1,330	**283**	–
Goodwill	8	**52,801**	41,774	**–**	–
Intangible assets	9	**16,124**	7,257	**–**	–
Investments in subsidiaries	11	**–**	–	**50,143**	42,459
Deferred tax assets	12	**1,336**	738	**136**	–
		72,086	51,099	**50,562**	42,459
Current assets					
Trade and other receivables	13	**13,363**	8,337	**5,685**	390
Financial assets – derivative financial instruments	18	**218**	134	**–**	–
Current income tax assets		**733**	–	**1,018**	18
Cash and cash equivalents	14	**19,137**	23,849	**9,234**	10,063
		33,451	32,320	**15,937**	10,471
Total assets		**105,537**	83,419	**66,499**	52,930
LIABILITIES					
Current liabilities					
Financial liabilities					
– borrowings	16	**(2,040)**	(3,000)	**(2,040)**	–
– derivative financial instruments	18	**(37)**	(198)	**(12)**	–
Trade and other payables	15	**(36,952)**	(27,847)	**(1,918)**	(7,967)
Current income tax liabilities		**(381)**	(100)	**–**	–
Provisions	17	**–**	(24)	**–**	–
		(39,410)	(31,169)	**(3,970)**	(7,967)
Net current (liabilities)/assets		**(5,959)**	1,151	**11,967**	2,504
Non-current liabilities					
Financial liabilities – borrowings	16	**(7,778)**	(7,250)	**(7,778)**	–
Provisions	17	**(404)**	(287)	**–**	–
Deferred tax liabilities	12	**(4,060)**	(1,316)	**–**	–
		(12,242)	(8,853)	**(7,778)**	–
NET ASSETS		**53,885**	43,397	**54,751**	44,963
SHAREHOLDERS' EQUITY					
Share capital	19	**3,939**	3,811	**3,939**	3,811
Share premium account	20	**6,449**	4,498	**6,449**	4,498
Capital redemption reserve		**12,372**	12,372	**12,372**	12,372
Other reserves	21	**34,279**	34,131	**17,386**	17,398
(Accumulated losses)/ retained earnings	22	**(3,251)**	(11,552)	**14,605**	6,884
Foreign currency translation reserve		**97**	137	**–**	–
TOTAL EQUITY		**53,885**	43,397	**54,751**	44,963

The accounting policies and notes on pages 70 to 115 are an integral part of these consolidated financial statements.

The financial statements on pages 64 to 115 were authorised for issue by the Board of Directors on 6 March 2018 and were signed on its behalf by:

Ivan Martin
Director

Philip Wood
Director

Company Registered Number: 1602662

for the year ended 31 December 2017

	Note	Share capital	Share premium account	(Accumulated losses)/ retained earnings	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 2016		**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	21	–	–	–	–	–	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	22	–	–	610	–	–	–	**610**
Deferred tax on financial instruments	12	–	–	(39)	–	–	–	**(39)**
Deferred tax on share options	12	–	–	227	–	–	–	**227**
Corporation tax on share options	22	–	–	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**
Profit for the year		–	–	9,936	–	–	–	**9,936**
Cash flow hedges								
– net fair value gains in the year	21	–	–	–	–	–	148	**148**
Exchange rate adjustments		–	–	–	(40)	–	–	**(40)**
Total comprehensive income for the year		–	–	9,936	(40)	–	148	**10,044**
Shares issued under share option schemes	19-20	102	4	–	–	–	–	**106**
Shares to be issued	19-20	26	1,947	–	–	–	–	**1,973**
Share options - value of employee service	22	–	–	796	–	–	–	**796**
Deferred tax on financial instruments	12	–	–	39	–	–	–	**39**
Deferred tax on share options	12	–	–	383	–	–	–	**383**
Corporation tax on share options	22	–	–	492	–	–	–	**492**
Dividends to equity holders of the Company	7	–	–	(3,345)	–	–	–	**(3,345)**
Total Contributions by and distributions to owners of the Company recognised directly in equity		128	1,951	(1,635)	–	–	–	**444**
Balance at 31 December 2017		**3,939**	**6,449**	**(3,251)**	**97**	**12,372**	**34,279**	**53,885**

The accounting policies and notes on pages 70 to 115 are an integral part of these consolidated financial statements.

Company Statement

Of Changes in Shareholders' Equity

for the year ended 31 December 2017

		Attributable to owners of the Company					
	Note	Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	**Total equity £000**
Company							
Balance at 1 January 2016		**3,796**	**4,484**	**5,848**	**12,372**	**17,398**	**43,898**
Profit for the year	22	–	–	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	22	–	–	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**
Profit for the year	22	–	–	10,270	–	–	**10,270**
Cash flow hedges – net fair value losses in the year	21	–	–	–	–	(12)	**(12)**
Total comprehensive income for the year		–	–	10,270	–	(12)	**10,258**
Shares issued under share option schemes	19–20	102	4	–	–	–	**106**
Shares to be issued	19-20	26	1,947	–	–	–	**1,973**
Share options – value of employee service	22	–	–	796	–	–	**796**
Dividends to equity holders of the Company	7	–	–	(3,345)	–	–	**(3,345)**
Total Contributions by and distributions to owners of the Company recognised directly in equity		128	1,951	(2,549)	–	–	**(470)**
Balance at 31 December 2017		**3,939**	**6,449**	**14,605**	**12,372**	**17,386**	**54,751**

The accounting policies and notes on pages 70 to 115 are an integral part of these consolidated financial statements.

Statements Of Cash Flow *for the year ended 31 December 2017*

	Note	Group Year ended 31 Dec 2017 £000	Group Year ended 31 Dec 2016 £000	Company Year ended 31 Dec 2017 £000	Company Year ended 31 Dec 2016 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	23	**13,551**	13,032	**7,103**	(161)
Interest paid		**(316)**	(397)	**(135)**	–
Income tax paid		**(2,525)**	(2,060)	**(1,000)**	–
Net cash flows generated from/ (used in) operating activities		**10,710**	10,575	**5,968**	(161)
Cash flows from investing activities					
Dividend received		**–**	–	**12,500**	3,500
Sale of property, plant and equipment		**–**	2,352	**–**	–
Purchase of property, plant and equipment	10	**(1,180)**	(894)	**(337)**	–
Purchase of share capital in subsidiaries	11	**–**	–	**(16,000)**	–
Acquisition of subsidiaries, net of cash acquired		**(10,460)**	(1,430)	**–**	–
Interest received		**13**	66	**5**	30
Net cash (used in)/ generated from investing activities		**(11,627)**	94	**(3,832)**	3,530
Cash flows from financing activities					
Net proceeds from issuance of ordinary shares		**106**	29	**106**	29
Dividends paid to Company's shareholders	7	**(3,345)**	(2,540)	**(3,345)**	(2,540)
Repayments of loan		**(12,250)**	(3,000)	**(2,000)**	–
Drawdown of loan		**11,818**	–	**11,818**	–
Amounts (lent to)/borrowed from group undertakings		**–**	–	**(9,544)**	120
Net cash used in financing activities		**(3,671)**	(5,511)	**(2,965)**	(2,391)
Net (decrease)/ increase in cash and cash equivalents		**(4,588)**	5,158	**(829)**	978
Cash, cash equivalents and bank overdrafts at beginning of year	14	**23,849**	18,600	**10,063**	9,085
Exchange rate (losses)/gains on cash and cash equivalents		**(124)**	91	**–**	–
Cash and cash equivalents at end of year	14	**19,137**	23,849	**9,234**	10,063

The accounting policies and notes on pages 70 to 115 are an integral part of these consolidated financial statements.

ACCOUNTING POLICIES

General Information

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

The Group consolidated financial statements were authorised for issue by the Board of Directors on 6 March 2018.

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 84 to 85.

Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Although the Group is operating in a net current liability position at the balance sheet date the Group retains significant cash balances benefitting from its annual licence fee model in which the overwhelming majority of its customers pay annually in advance. The Directors have prepared forecasts which show that the Group will have sufficient cash to operate within their existing bank facilities and to allow them to meet their operating liabilities as and when they fall due for a period of at least 12 months from the date of approval of these financial statements. 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 2017

There are no new standards, and amendments to standards and interpretations which are effective for annual periods beginning after 1 January 2017, 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*' (hereinafter referred to as 'IFRS 15') replaces IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. IFRS 15 is based on revenue being recognised as and when 'transfer of control' (of the goods or services provided) occurs which is a change from the 'risks and rewards' model under the current revenue standards.

<u>Retrospective application</u>

The Group plans to adopt IFRS 15 using a fully retrospective application which will include restatement of the prior period comparatives under the new standard.

Impacted areas

The Group has identified the following areas where the adoption of IFRS 15 will have an effect significant enough for consideration:

– software licences and maintenance services; and

– software licence sales commissions.

The revenue recognition policy in force for the year ending 31 December 2017 in respect of software licences and maintenance services is described on page 74.

Software licence sales commission in the year ending 31 December 2017 and earlier periods are expensed when the invoices on which the commissions are earned are issued to customers.

Revenue areas not considered to be significantly impacted by IFRS 15

The implementation of IFRS 15 is not considered to have a significant impact on the timing or amount of revenue recognised by the Group in any year in relation to:

– support fees;

– funded development;

– product specific consultancy;

– managed services;

– general consultancy; and

– revenue from Microgen Financial Systems' legacy products other than Microgen 5Series.

Impact of IFRS 15 on software licences and maintenance services

The Group's revenue contracts overwhelmingly include the provision of licenced software where enhancement of the core software over time represents an integral part of the obligation to our customers. For Aptitude Software products this enhancement typically involves significant ongoing optimisation of functionality and performance for its users. For Microgen 5Series, the key product of Microgen Financial Systems, the enhancements typically provide mission-critical and timely regulatory functionality. These enhancements are essential for the ongoing compliance of its users and their clients.

These material ongoing enhancement obligations have historically been the reason why the significant majority of our products are structured around annual licence fees for which revenue has been recognised over time.

IFRS 15 requires an entity to evaluate whether the ongoing obligations represent a performance obligation that is distinct from the licence. If not distinct the combined performance obligation is evaluated against recognition over time criteria. If the licence is distinct it is recognised separately from the other performance obligations.

The management evaluation of this judgement for Aptitude Software products and Microgen 5Series is further explained below.

Aptitude Software products

Aptitude Software's specialised financial management software applications require optimisation of functionality and performance in the initial years of their use to ensure that the applications continue to meet the requirements of its users. This requirement is due to the significant complexity of the applications which specialise in very rapidly processing very high volume complex, business event-driven transactions and calculations. As a result, the Group has concluded that the software licence and the optimisation services are not distinct from each other during the period in which the functionality is being optimised and should be combined to create a single performance obligation ('Combined Performance Obligation'). The Group's evaluation is that the Combined Performance Obligation meets the criteria for revenue to be recognised over time as the services are significantly modifying and optimising the software the customer controls.

The transfer of the Combined Performance Obligation is considered complete when the intense functionality enhancement activity in the initial years diminishes to a consistent level of ongoing maintenance obligation which is delivered through either annual maintenance charges or annual licence fees.

In determining the most appropriate method of recognising revenue over time, the Group has concluded that the Combined Performance Obligation will be recognised using an input method based on development activity related to the relevant product over the period in which the enhancements are required by the particular user.

The Group's preliminary assessment is that this accounting treatment for Aptitude Software products would not have resulted in a material change in revenue in 2017 compared to that recognised under the Group's existing revenue recognition policy.

Microgen 5Series

Microgen 5Series, the leading product of Microgen Financial Systems, is focused on the Trust & Fund Administration market. A core requirement of Microgen 5Series is to enable its users, and in turn their customers, to remain compliant with multiple significant financial industry regulations. The Microgen team expends considerable effort ensuring that the product remains up to date with changing regulations across multiple jurisdictions. Should this effort not be expended, and the product consequently fails to be kept updated, the risk to customers would be such that they would be unlikely to continue to use the product. As a result of this need for ongoing material modification to the product's functionality, the Group is currently evaluating whether the two promises in a typical contract (the software licence and the maintenance services) are distinct from each other, or whether they should be combined to create a Combined Performance Obligation, the revenue relating to which would be recognised over time.

If the obligations are combined then the Group's preliminary assessment is that this accounting treatment for Microgen 5Series would not have resulted in a material change in revenue in 2017 compared to that recognised under the Group's existing revenue recognition policy. If the obligations are distinct from each other then, in view of the onerous obligations to maintain and update the product, the Group would not expect the value of the licence alone to be significant, limiting the impact of the application of IFRS 15.

Impact of IFRS 15 on software licence sales commissions

The Group has considered the impact of IFRS 15 on the recognition of software sales commission costs. If IFRS 15 was applied to the year ending 31 December 2017 then, due to the change in treatment of software sales commission costs only, the Group's net assets and adjusted operating profit would increase by approximately £1.8 million and £0.5 million respectively compared to that reported under the Group's existing accounting policies. The reason for the change in the recognition of software sales commission costs under IFRS 15 is due to the Group's assessment that the commission meets the definition of incremental costs of obtaining a contract under IFRS 15. As a result, an asset will be recognised for the software sales commissions which will typically be amortised across the contract life of each client.

IFRS 9, *'Financial Instruments'*, deals with how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. The standard replaces IAS 39 and applies to periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

IFRS 16, *'Leasing'*, deals with the recognition, measurement, 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 2017 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.

Intercompany balances, income and expenses on transactions between group companies and profits and losses resulting from intercompany transactions that are recognised in assets are all eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Revenue recognition

Revenue compromises 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;

– collection of the debt is likely; and

– no vendor specific obligations relating to the delivered software are outstanding.

Once all of these criteria have been met 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 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 basis or fixed priced basis. Time and materials consultancy is recognised in the period it is performed in. Fixed price 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, these costs are detailed as "Group" costs in Note 1.

Non-underlying items.
Non-underlying items are material items of income or expense which are disclosed and described separately in the accounts where it is necessary to do so in order to provide a better understanding of the financial performance of the Group. These items include acquisition and associated restructuring costs, the amortisation of acquired intangibles, the impact of share based payments and fees in relation to replacement credit facilities.

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.

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 probability 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, with this being determined as 6-10 years.

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, with this being determined as 10 years.

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 or 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 88) is shown within non-underlying items. The expense for options granted between 2015 and 2017 are included within operating costs. The charge taken to the Company income statement reflects only those options granted to employees of the Company with the remainder granted to employees employed under subsidiary companies. These options are treated in a similar manner to capital contributions with an addition to investments.

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 presentational 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 subject to revenue from overseas subsidiary's quarterly, half yearly or annual invoices for Annual Licence fees or Maintenance being recognised at the exchange rate at the point of invoicing. 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, Polish Zloty and Canadian Dollar.

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 recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective rate.

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 exposure.

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 other comprehensive income. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in other comprehensive income are transferred to the income statement in the same period as the underlying income or expenditure.

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, US Dollar and Canadian Dollar. The Group's 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 2017 was 6 months (2016: 6 months).

In addition, forward foreign currency contracts were also put in place from February 2017 to hedge a proportion of the Group's forecasted US dollar denominated service related revenue less US dollar denominated cost over the next 12 months. These have the effect of fixing the sterling amount of US dollars to be received in the future from US dollar denominated service revenue less US dollar denominated costs. The average remaining life of the forward contracts at 31 December 2017 was 5 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.

	2017 £000	2016 £000
Polish Zloty	**47**	24
South African Rand	**(48)**	(39)
US Dollar	**(119)**	(300)
Euro	**(8)**	(1)
Canadian Dollar	**2**	14
	(126)	(302)

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 both interest payable on borrowings and interest earned on its cash balances.

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. The Group's policy on interest earned from its cash balances is to maximise the return (subject to the constraints imposed by the need to limit credit and liquidity risk as detailed on the following page).

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.

	2017 £000	2016 £000
Increase in interest receivable on cash balances	**167**	150

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 and in addition credit insurance is maintained as appropriate for a number of trade receivable balances.

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 2017 Balance £000	31 December 2016 Balance £000
Bank A	**A2**	**10,619**	18,702
Bank B	**A1**	**3,504**	1,555
Bank C	**Aa3**	**1,020**	1,431
		15,143	21,688
Customer A	**Baa3**	**1,094**	1,425
Customer B	**Ba2**	**793**	751
Customer C	**Baa1**	**590**	678
		2,477	2,854

(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 2017	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**
Borrowings	**2,268**	**4,389**	**4,166**
Derivative financial instruments	**37**	**–**	**–**
Trade and other payables	**35,149**	**–**	**–**
	37,454	**4,389**	**4,166**

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	–

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. Within the table below, the outflow and inflows on settlement in respect of the forward foreign exchange contracts have both increased by £2.1 million since 31 December 2016. This is due to the increased investment made in Poland along with the Groups decision to enter into contracts to hedge the net cash flows on US dollar service receipts.

At 31 December 2017	**Less than 1year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**
Forward foreign exchange contracts			
– cash flow hedges			
Outflow	**(5,906)**	**–**	**–**
Inflow	**5,898**	**–**	**–**
Interest rate swap			
– cash flow hedges			
Outflow	**(268)**	**(389)**	**(166)**
Inflow	**234**	**345**	**154**
	(42)	**(44)**	**(12)**

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)	–

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	
	2017 £'000	2016 £'000
Financial Assets		
Derivative financial assets (designated hedge instruments)	**218**	134
	218	134
Financial Liabilities		
Derivative financial liabilities (designated hedge instruments)	**37**	198
	37	198

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 regularly reviews both the Group's capital structure and net funds position which is disclosed within the Chief Financial Officer's report. No changes were made to our objectives and processes during 2017.

Our general funding policy is to raise long term debt when required to meet the anticipated requirements of the Group. Details of the Groups existing loan facility is provided in note 16.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Recognition of Revenue

The policy for the recognition of Licence Fees is detailed on page 74. 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 statement in the period which it is deemed to arise.

(c) Impairment of other intangibles

The Group also assesses annually any indicators that other intangible assets might be impaired. The impairment tests are based on value-in-use calculations on a similar basis to that used in the impairment of Goodwill calculation and is therefore subject to the same estimates by management.

Impairments recognised during the year are performed against the carrying value of other intangible assets. The impairment is recognised in the income statement in the period which it is deemed to arise.

(d) 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.

(e) 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 the 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 2016 and 2017 was the provision of business critical software and services.

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 2017	**Aptitude Software £000**	**Microgen Financial Systems £000**	**Group £000**	**Total £000**
Revenue	44,340	18,300	–	**62,640**
Operating costs	(36,394)	(10,798)	–	**(47,192)**
Operating profit before Group overheads	7,946	7,502	–	**15,448**
Unallocated Group overheads			(1,827)	**(1,827)**
Operating profit before non-underlying and other items				**13,621**
Non-underlying items	(829)	(1,398)	(314)	**(2,541)**
Operating profit/(loss)	**7,117**	**6,104**	**(2,141)**	**11,080**
Net finance costs				**(303)**
Profit before tax				**10,777**
Income tax expense				**(841)**
Profit for the year				**9,936**

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 costs				**(331)**
Profit before tax				**7,881**
Income tax expense				**(1,638)**
Profit for the year				**6,243**

1 Segmental Information (continued)

(b) Other information

Year ended 31 December 2017	Aptitude Software £000	Microgen Financial Systems £000	Group £000	Total £000
Capital expenditure				
– property, plant and equipment (note 10)	**630**	**248**	**302**	**1,180**
Depreciation (note 10)	**(364)**	**(238)**	**(105)**	**(707)**

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

(c) Balance sheet

Year ended 31 December 2017	Aptitude Software £000	Microgen Financial Systems £000	Group £000	Total £000
Consolidated total assets	**49,106**	**35,048**	**21,383**	**105,537**
Consolidated total liabilities	**(27,950)**	**(14,250)**	**(9,452)**	**(51,652)**
	21,156	**20,798**	**11,931**	**53,885**

Year ended 31 December 2016	Aptitude Software £000	Microgen Financial Systems £000	Group £000	Total £000
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

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 2017 £000	Year ended 31 Dec 2016 £000	**Year ended 31 Dec 2017 £000**	Year ended 31 Dec 2016 £000
United Kingdom	**32,091**	25,886	**10,860**	10,723
Rest of World	**30,549**	17,102	**51,780**	32,265
	62,640	42,988	**62,640**	42,988

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 2017 £000	Year ended 31 Dec 2016 £000	**Year ended 31 Dec 2017 £000**	Year ended 31 Dec 2016 £000
United Kingdom	**45,865**	44,257	**780**	586
Rest of World	**24,885**	6,104	**400**	308
	70,750	50,361	**1,180**	894

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 2017 £000	Year ended 31 Dec 2016 £000
Employee benefit expense (note 3)	**31,555**	23,005
Depreciation (note 10)	**707**	601
Other operating costs	**16,757**	9,857
Non-underlying operating costs:		
Amortisation of intangibles (note 9)	**1,316**	812
Share based payments on share options issued in 2013	**115**	399
Costs in relation to replacement credit facility	**199**	–
Acquisition and associated restructuring costs	**911**	102
	51,560	34,776

2 Operating profit (continued)

Profit from operations has been arrived at after charging:

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Net foreign exchange gains	**(201)**	(314)
Research and development costs – Aptitude Software	**5,262**	4,011
Research, development and support costs – Microgen Financial Systems	**3,350**	3,152
Depreciation of property, plant and equipment (note 10)	**707**	601
Operating lease rentals payable:		
– plant and machinery	**30**	25
– other	**1,316**	1,062
Repairs and maintenance expenditure on property, plant and equipment	**234**	223

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

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Fees payable to Company's auditors for the audit of the Company and Group consolidated financial statements	**122**	95
Fees payable to the Company's auditors and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	**46**	62
– audit related assurance services	**35**	–
– other consultancy services	**28**	–
– corporation tax services	**10**	54
– overseas secondment services	**–**	125
	241	336

In the prior year, the Company's auditors performed tax return services for the Group's employees in circumstances where the employer had 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 no longer provided 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 26 to 28 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 2017 £000	Group Year ended 31 Dec 2016 £000
Employee benefit expense during the year		
Excluding non-underlying costs		
Wages and salaries	**27,883**	20,468
Social security costs	**2,335**	1,721
Other pension costs (note 27)	**656**	605
Share based payment costs on share options issued after 2013 (note 26)	**681**	211
	31,555	23,005
Non-underlying share based payment cost on share options issued in 2013 (note 26)	**115**	399
	31,670	23,404

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

	Group Year ended 31 Dec 2017 Number	Group Year ended 31 Dec 2016 Number
By location:		
United Kingdom	**150**	126
Rest of World	**204**	159
	354	285

Headcount at 31 December 2017 was 396 (2016: 312).

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Key management compensation:		
Short-term employee benefits	**2,463**	2,339
Post employment benefits	**71**	73
Share based payment	**427**	449
	2,961	2,861

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

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Directors		
Aggregate emoluments	**1,269**	1,282
Company contributions to money purchase pension scheme	**35**	33
	1,304	1,315

Average monthly number of Directors and senior executives were 11 (2016: 12). The key management figures given above include the Directors of Microgen plc.

3 **Employees and Directors (continued)**

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 34 to 56.

4 **Net finance income**

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Finance income		
Interest on bank deposits	**13**	65
Interest on Corporation Tax	**–**	1
	13	66
Finance cost		
Interest payable on bank borrowings	**(316)**	(397)
	(316)	(397)
Net finance income	**(303)**	(331)

5 **Income tax expense**

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Analysis of charge in the year		
Current tax:		
– tax charge on underlying items	**(2,707)**	(1,862)
– adjustment to tax in respect of prior periods	**(96)**	7
Total current tax	**(2,803)**	(1,855)
Deferred tax (note 12):		
– tax credit/ (charge) on underlying items	**112**	(3)
– tax credit on non-underlying items	**1,447**	190
– adjustment to tax in respect of prior periods	**403**	30
Total deferred tax	**1,962**	217
Income tax expense	**(841)**	(1,638)

UK corporation tax is calculated at 19.25% (2016: 20.00%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

UK corporation tax rates substantively enacted as part of the Finance Bill 2016 include reductions to the main rate to 19% from 1 April 2017 and further reduction to 17% from 1 April 2020. Changes to the US tax rates were substantively enacted by the balance sheet date where the Federal tax rate was reduced from 35% to 21%, which after taking into account state taxes reduces the Group's US effective tax rate from 43% to 29% for 2018. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in the financial statements. Within the deferred tax credit on non-underlying items is £1.1 million in respect of the revaluation of the £3.6 million deferred tax liability established on the acquisition of Aptitude RevStream Inc.

5 **Income tax expense (continued)**

The tax for the year is lower than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20.0%). The differences are explained below:

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Profit on ordinary activities before tax	**10,777**	7,881
Tax at the UK corporation tax rate of 19.25% (2016: 20.00%)	**(2,074)**	(1,576)
Effects of:		
Adjustment to tax in respect of prior periods	**307**	37
Adjustment in respect of foreign tax rates	**(390)**	(155)
Expenses not deductible for tax purposes		
Non-underlying costs not deductible	**–**	(4)
Other	**(112)**	(87)
Recognition of tax losses	**321**	139
Change in future tax rates	**1,107**	8
Total taxation	**(841)**	(1,638)

The total tax charge of £841,000 (2016: £1,638,000) represents 7.80% (2016: 20.8%) of the Group profit before tax of £10,777,000 (2016: £7,881,000). The reduction in effective rate is due principally to the impact of the movement in the US deferred tax rate.

After adjusting for the impact of non-underlying items, change in tax rates, share based payment charge and prior year tax charges the tax charge for the year of £2,916,000 (2016: £2,004,000) represents 21.89% (2016: 21.80%), 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 along with the deferred equity consideration arising as part of the Aptitude RevStream Inc. acquisition.

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

	Year ended 31 Dec 2017			Year ended 31 Dec 2016		
	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	**9,936**	**60,612**	**16.4**	6,243	59,088	10.6
Effect of dilutive securities:						
– share options	**–**	**3,228**	**(0.8)**	–	3,428	(0.6)
Diluted EPS	**9,936**	**63,840**	**15.6**	6,243	62,516	10.0

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 21.89% (2016: 21.80%).

	Year ended 31 Dec 2017		Year ended 31 Dec 2016	
	Basic EPS pence	**Diluted EPS pence**	Basic EPS pence	Diluted EPS pence
Earnings per share	**16.4**	**15.6**	10.6	10.0
Non-underlying items net of tax	**1.8**	**1.7**	1.9	1.8
Prior years' tax credit	**(0.5)**	**(0.4)**	–	–
Tax losses recognised	**(0.6)**	**(0.6)**	(0.2)	(0.2)
Adjusted earnings per share	**17.1**	**16.3**	12.3	11.6

	Year ended 31 Dec 2017 £000	Year ended 31 Dec 2016 £000
Profit on ordinary activities before tax and non-underlying items	**13,318**	9,194
Tax charge at a rate of 21.89% (2016: 21.80%)	**(2,916)**	(2,004)
	10,402	7,190
Prior years' tax charge	**307**	37
Non-underlying items net of tax	**(1,094)**	(1,123)
Recognition of tax losses	**321**	139
Profit on ordinary activities after tax	**9,936**	6,243

7 Dividends

	2017 pence per share	2016 pence per share	**2017 £000**	2016 £000
Dividends paid:				
Interim dividend	**2.0**	1.5	**1,217**	886
Final dividend (prior year)	**3.5**	2.8	**2,128**	1,654
	5.5	4.3	**3,345**	2,540
Proposed but not recognised as a liability:				
Final dividend (current year)	**4.25**	3.5	**2,587**	2,100

The proposed final dividend was approved by the Board on 6 March 2018 but was not included as a liability as at 31 December 2017, 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 25 May 2018 to shareholders on the register at the close of business on 4 May 2018.

8 Goodwill

	31 Dec 2017 £000	31 Dec 2016 £000
Cost		
At 1 January	**59,709**	59,709
Acquisitions through business combinations	**9,329**	–
Transfer from Intangibles	**1,698**	–
At 31 December	**70,736**	59,709
Accumulated impairment		
At 1 January and 31 December	**(17,935)**	(17,935)
Net book amount	**52,801**	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
Acquisition through business combinations	8,440	889	9,329
Transfer from Intangibles	–	1,698	1,698
At 31 December 2017	**23,787**	**29,014**	**52,801**

The transfer from Intangibles during the year of £1,698,000 has been made to re-allocate part of the value attributed to Intangibles in recent business combinations. The re-allocation has been made because this amount should, under IAS 12, have been treated as goodwill because it arose from the recognition of a deferred tax liability relating to acquired Intangibles. The Directors consider that the effect of this misallocation on prior period financial statements was immaterial.

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

8 **Goodwill (continued)**

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 continuation of current operating profit levels for the next four years following the approved 2018 plan. The Board considers this achievable through a combination of continued organic growth in the Wealth Management sector and the contribution from focused acquisitions. No benefit of any potential acquisitions is, however, included in the value in use calculation for Microgen Financial Systems.

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 2018 plans.

The terminal growth rates for the period after 2022 are no greater than 2.25% per annum for either business. The conversion to cash ratios for Microgen Financial Systems and Aptitude Software are assumed to be 80% and 77% respectively as a result of Aptitude Software's increased activity in other tax jurisdictions, particularly the US. 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% (2016: 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 2017	982	7,516	8,498
Acquisitions through business combinations	5,247	6,634	11,881
Transfer to Goodwill	(196)	(1,502)	(1,698)
At 31 December 2017	**6,033**	**12,648**	**18,681**
Accumulated amortisation and impairment			
At 1 January 2017	229	1,012	1,241
Amortisation	332	984	1,316
At 31 December 2017	**561**	**1,996**	**2,557**
Net book amount			
At 31 December 2017	**5,472**	**10,652**	**16,124**

9 Intangible assets (continued)

	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**

The Company held no intangible assets during the year (2016: nil).

The externally acquired software IPR and in process R&D relates to expected future benefits of software and development projects in progress at the date of acquisition. As at 31 December 2017 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 6-10 years (2016: 6 years) in respect of software IPR and in process R&D and 10 years (2016: 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 2017	599	4,721	202	**5,522**
Additions	33	941	206	**1,180**
Acquired from acquisitions	8	17	38	**63**
Disposals	–	(506)	(22)	**(528)**
Exchange movements	9	202	1	**212**
At 31 December 2017	**649**	**5,375**	**425**	**6,449**
Accumulated depreciation				
At 1 January 2017	455	3,571	166	**4,192**
Charge for the year (note 2)	20	650	37	**707**
Disposals	–	(491)	(5)	**(496)**
Exchange movements	6	206	9	**221**
At 31 December 2017	**481**	**3,936**	**207**	**4,624**
Net book amount				
At 31 December 2017	**168**	**1,439**	**218**	**1,825**

	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)

	Plant & machinery £000	Total £000
Company		
Cost		
At 1 January and 31 December 2016	–	**–**
Additions	337	**337**
At 31 December 2017	**337**	**337**
Accumulated depreciation		
At 1 January and 31 December 2016	–	**–**
Charge for the year	54	**54**
At 31 December 2017	**54**	**54**
Net book amount		
At 31 December 2017	**283**	**283**

11 Investments in subsidiaries

The Group did not hold any investments in 2017 (2016: nil).

	2017 £000	2016 £000
Company		
Cost		
At 1 January	**55,614**	55,004
Additions	**16,000**	–
Share based payments – share options granted to employees of subsidiaries	**684**	610
At 31 December	**72,298**	55,614
Impairment		
At 1 January	**13,155**	13,155
Charge for the year pursuant to intra-group dividend	**9,000**	–
At 31 December	**22,155**	13,155
Net book amount		
At 31 December	**50,143**	42,459

In February and June 2017, Microgen plc invested new capital in its subsidiary Microgen Financial Systems Limited for consideration of £5,000,000 and £4,000,000 respectively. In addition, Microgen plc invested new capital in its subsidiary Aptitude Software Limited in June 2017 for consideration of £7,000,000.

11 Investments in subsidiaries (continued)

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. During the course of 2017, an intra-group dividend was paid by Microgen Management Services Limited to Microgen plc of £9,000,000. At this time the net book value of the investment in Microgen Management Services Limited was reduced by the value of this dividend to its recoverable amount with the charge being recognised in the income statement in the year.

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
Aptitude RevStream Inc.*	USA	Software and Services
Infoscreen (Cyprus) Limited*	Cyprus	Software and Services
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 Management Services Limited	England & Wales	Employment and Group Services
Microgen Poland Sp. Z.o.o.*	Poland	Development
Microgen Software (Primacy) Limited*	Canada	Software and Services
Microgen Solutions Limited *	England & Wales	Software and Services
Microgen (South Africa) Pty Limited *	South Africa	Software and Services
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.

The registered office of the Group's subsidiaries are detailed below:

Subsidiaries	Registered office
Aptitude Software (Canada) Limited	1500 Royal Centre, 1055 West Georgia Street, PO Box 11117, Vancouver, British Columbia
Aptitude Software Inc.	CT Corporation System, 111 8th Avenue, New York 10011
Aptitude RevStream Inc.	100 Marine Parkway, Suite 210, Redwood City, CA 94065
Infoscreen (Cyprus) Limited	Sophia Court, 3rd Floor, Agias, Filaxeous 166, Limassol 3083, Cyprus
Microgen (Channel Islands) Limited	Provident House, Havilland Street, Guernsey, Channel Islands GY1 2QE
Microgen (Jersey) Limited	19 Hilary Street, St Helier, Jersey, JE2 4SX
Microgen Poland Sp. Z.o.o.	ul. Muchoborska 6, 54-424 Wroclaw, Poland
Microgen Software (Primacy) Limited	Suite 2600, Three Bentall Centre, 595 Burrard Street, PO Box 49314, Vancouver BC
Microgen (South Africa) Pty Limited	6th Floor, 199 Hertzog Boulevard, Foreshore, Cape Town, 8001
All other Group subsidiaries	Old Change House, 128 Queen Victoria Street, London EC4V 4BJ

During 2017 Microgen Wealth Management Systems Limited and Aptitude Software Inc., subsidiaries of Microgen plc, acquired the entire share capital of Microgen Software (Primacy) Limited and Aptitude RevStream Inc. respectively.

12 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2016: 19%) for balances expected to be recovered within 12 months and all subsequent periods. US deferred tax is calculated using an effective rate of 29% (21% federal and 8% state tax) (2016: effective rate of 43% being 35% federal and 8% state tax).

Deferred tax	**Group 2017 £'000**	Group 2016 £'000	**Company 2017 £'000**	Company 2016 £'000
Group				
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	**973**	505	**116**	–
– Deferred tax asset to be recovered within 12 months	**363**	233	**20**	–
	1,336	738	**136**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be settled after more than 12 months	**(3,721)**	(1,140)	**–**	–
– Deferred tax liabilities to be settled within 12 months	**(339)**	(176)	**–**	–
	(4,060)	(1,316)	**–**	–
Deferred tax (liability)/ asset	**(2,724)**	(578)	**136**	–

Net deferred tax (liability)/ asset	**Group 2017 £'000**	Group 2016 £'000	**Company 2017 £'000**	Company 2016 £'000
At 1 January	**(578)**	(521)	**–**	–
Total credit/ (charge) to income statement for the year	**173**	(4)	**2**	–
Charge to equity (note 22)	**422**	188	**–**	–
Exchange differences	**18**	(7)	**–**	–
On acquisition of subsidiaries	**(4,527)**	(425)	**–**	–
Non-underlying deferred tax credit to the income statement for the year	**661**	191	**–**	–
Changes in tax rate	**1,107**	–	**–**	–
Recognised on reorganisation of Group	**–**	–	**134**	
At 31 December	**(2,724)**	**(578)**	**136**	**–**

The deferred tax liability recognised on acquisition of subsidiaries is in relation to the acquisitions of Microgen Solutions (Primacy) Limited (£889,000) and Aptitude Revstream Inc. (£3,638,000) in the year, details of which can be found in note 24. These amounts represent the intangible assets acquired on acquisition recognised at the effective tax rate enforced on that date.

As outlined in note 5, the US tax rate was reduced during the period which lowered the Group's US effective rate from 43% to 29% for 2018. As a result, the deferred tax liability recognised with respect to the intangible assets from Aptitude RevStream Inc. were revalued at the new enacted rate at the balance sheet date, the effect of which is shown within the changes in tax rate.

12 Deferred tax (continued)

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

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 2016	106	164	175	116	561
Total (charge)/credit to income statement for the year	(12)	12	26	(30)	(4)
(Charge)/credit to equity (note 22)	–	(39)	227	–	188
Exchange differences	–	(7)	–	–	(7)
At 31 December 2016	**94**	**130**	**428**	**86**	**738**
Total credit to income statement for the year	35	64	16	58	173
Credit to equity (note 22)	–	39	383	–	422
Exchange differences	–	18	–	–	18
Changes in tax rate	(5)	(10)	–	–	(15)
At 31 December 2017	**124**	**241**	**827**	**144**	**1,336**

At the balance sheet date, the Group has unused tax losses of £3,366,000 (2016: £3,413,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £756,000 (2016: £455,000) of such losses which is the maximum the Group anticipates being able to utilise in the year ending 31 December 2018. No deferred asset has been recognised in respect of the remaining £2,610,000 (2016: £2,958,000) due to the unpredictability of future profit streams.

	Accelerated capital allowances £000	Share-based payments £000	Total £000
Company			
At 1 January and 31 December 2016	**–**	**–**	**–**
Total credit to income statement for the year	2	–	2
Recognised on reorganisation of Group	18	116	134
At 31 December 2017	**20**	**116**	**136**

During the period, the employees and trade of Microgen Management Services Limited, a subsidiary of Microgen plc, was transferred into the relevant Group entity. Microgen plc recognised a deferred tax asset on its share of the transferred trade.

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.

12 Deferred tax (continued)

Deferred tax liability arising on acquisitions of intangible fixed assets	2017 £000	2016 £000
Group		
At 1 January	**(1,316)**	(1,082)
On acquisition of subsidiaries	**(4,527)**	(425)
Non-underlying deferred tax credit to the income statement for the year	**661**	191
Changes in tax rate	**1,122**	–
At 31 December	**(4,060)**	(1,316)

Explanations of the movements in the year is provided on page 100.

13 Trade and other receivables

	Group 31 Dec 2017 £000	Group 31 Dec 2016 £000	Company 31 Dec 2017 £000	Company 31 Dec 2016 £000
Trade receivables	**10,496**	6,484	**–**	–
Less: provision for impairment of receivables	**(88)**	(4)	**–**	–
Trade receivables – net	**10,408**	6,480	**–**	–
Amounts owed by group undertakings	**–**	–	**5,308**	167
Other receivables	**964**	468	**72**	83
Prepayments and accrued income	**1,991**	1,389	**305**	140
	13,363	8,337	**5,685**	390

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

Within the trade receivables balance of £10,496,000 (2016: £6,484,000) there are balances totalling £3,531,000 (2016: £3,418,000) which, at 31 December 2017, were overdue for payment. Of this balance £3,125,000 (2016: £3,028,000) has been collected at 6 March 2018 (2016: 7 March 2017).

The ageing of the trade receivables is as follows:

	Trade receivables 31 Dec 2017 £000	Trade receivables 31 Dec 2016 £000
Not past due	**6,965**	3,066
Past due		
Less than one month overdue	**2,806**	2,357
One to two months overdue	**296**	523
Two to three months overdue	**232**	461
More than three months overdue	**197**	77
At 31 December	**10,496**	6,484

The Company had no trade receivables in either year.

13 Trade and other receivables (continued)

Trade and other receivables are denominated in the following currencies:

	Group 31 Dec 2017 £000	Group 31 Dec 2016 £000	**Company 31 Dec 2017 £000**	Company 31 Dec 2016 £000
Sterling	**7,240**	4,279	**3,712**	390
United States Dollars	**5,687**	3,511	**–**	–
Other	**436**	547	**–**	–
	13,363	8,337	**3,712**	390

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

	Group 31 Dec 2017 £000	Group 31 Dec 2016 £000
At 1 January	**4**	5
Receivables written off as uncollectable	**–**	(1)
On acquisition	**14**	–
Charged to income statement	**70**	–
At 31 December	**88**	4

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.

Whilst the Group retains credit insurance in respect of certain balances, 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 (2016: nil).

14 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group 31 Dec 2017 £000	Group 31 Dec 2016 £000	**Company 31 Dec 2017 £000**	Company 31 Dec 2016 £000
Sterling	**12,065**	18,960	**9,234**	10,063
South African Rand	**772**	250	**–**	–
United States Dollar	**5,448**	4,070	**–**	–
Polish Zloty	**215**	217	**–**	–
Canadian Dollar	**572**	109	**–**	–
Euros	**64**	236	**–**	–
Serbian Dinars	**1**	1	**–**	–
Hong Kong Dollar	**–**	6	**–**	–
Cash at bank and in hand	**19,137**	23,849	**9,234**	10,063

The effective interest rate on short term deposits was 0.1% (2016: 0.4%).

15 Trade and other payables

	Group 31 Dec 2017 £000	Group 31 Dec 2016 £000	Company 31 Dec 2017 £000	Company 31 Dec 2016 £000
Trade payables	**1,797**	1,367	**169**	388
Amounts owed to group undertakings	**–**	–	**1,091**	7,331
Other tax and social security payable	**1,803**	1,323	**38**	–
Other payables	**113**	235	**14**	211
Accruals	**6,911**	4,305	**606**	37
Deferred income	**26,328**	20,617	**–**	–
	36,952	27,847	**1,918**	7,967

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

16 Financial liabilities

	Group 31 Dec 2017 £000	Group 31 Dec 2016 £000	Company 31 Dec 2017 £000	Company 31 Dec 2016 £000
Bank loan	**9,818**	10,250	**9,818**	–
The borrowings are repayable as follows:				
Within one year	**2,040**	3,000	**2,040**	–
In the second year	**2,040**	7,250	**2,040**	–
In the third to fifth years inclusive	**5,920**	–	**5,920**	–
	10,000	10,250	**10,000**	–
Unamortised prepaid facility arrangement fees	**(182)**	–	**(182)**	–
As at 31 December	**9,818**	10,250	**9,818**	–

On 21 July 2017, the Group and Company entered into a loan agreement with Bank Of Ireland consisting of a £10 million term loan in addition to a revolving credit facility of £10 million. The loan is secured on the assets of the Group. Operating covenants are limited to the Group's net debt leverage and interest cover. The term loan is repayable over five years with an annual capital repayment of £2,000,000. The loan is denominated in Pound Sterling and carries interest at LIBOR plus 1.60%. The Group entered into an interest swap on 24 July 2017, effectively fixing the interest rate at 2.46% over a five year period. The proceeds from the new term loan were used to refinance the previous term loan between Microgen Financial Systems Limited, a subsidiary of Microgen plc, and Royal Bank of Scotland plc with the outstanding balance of £8.8 million being settled in full.

17 Provisions

	Provisions 31 Dec 2017 £000	Provisions 31 Dec 2016 £000
Group		
At 1 January	**311**	275
Charged to income statement	**94**	46
Utilised	**(9)**	(20)
Foreign exchange	**8**	10
At 31 December	**404**	311

17 Provisions (continued)

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

	Provisions	
	31 Dec 2017 £000	31 Dec 2016 £000
Current	**–**	24
Non-current	**404**	287
	404	311

£365,000 of the total provision at 31 December 2017 of £404,000 relates to the cost of dilapidations in respect of its occupied leasehold premises.

All of the non-current provision is expected to unwind within 2 to 5 years (2016: £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 2017		31 Dec 2016	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Group				
Interest rate swaps – cash flow hedges	**–**	**12**	–	150
Forward foreign exchange contracts – cash flow hedges	**218**	**25**	134	48
	218	**37**	134	198

	31 Dec 2017		31 Dec 2016	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Company				
Interest rate swaps – cash flow hedges	**–**	**12**	–	–

Total derivatives designated as hedging instruments

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

As in previous years, forward foreign exchange contracts are used to hedge the Group's forecasted Polish Zloty denominated costs over the next 12 months. In addition, forward foreign currency contracts were also put in place from February 2017 to hedge a proportion of the Group's forecasted US dollar denominated service related revenue less US dollar denominated cost over the next 12 months. The forward exchange contracts mature across the year.

18 Financial instruments (continued)

The notional principal amounts outstanding at the balance sheet date are as follows:

	31 Dec 2017 £000	31 Dec 2016 £000
Forward foreign exchange contracts – Polish Zloty	**4,610**	3,782
Forward foreign exchange contracts – US Dollar	**1,296**	–

At 31 December 2017, the fair value of the Group's currency derivatives is estimated to be an asset of approximately £193,000, (2016: £86,000), comprising £218,000 assets (2016: £134,000) and £25,000 liabilities (2016: £48,000), based on quoted market values.

The forward contracts are designated as effective 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 (2016: 12 months).

A gain of £437,000 (2016: gain of £261,000) has been transferred to the income statement in respect of contracts which have matured during the year.

Fair Value interest rate swaps

The Group and Company entered 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 2017 amounts to £10,000,000 (2016: £10,250,000).

The fair value liability recognised in the consolidated statement of comprehensive income is £12,000 (2016: £150,000).

Additional disclosures are set out in the accounting policies relating to risk management.

Fair values of non-derivative financial assets and financial liabilities

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

		31 Dec 2017		31 Dec 2016	
	Note	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Group					
Cash at bank and in hand	14	**19,137**	**19,137**	23,849	23,849

		31 Dec 2017		31 Dec 2016	
	Note	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Company					
Cash at bank and in hand	14	**9,234**	**9,234**	10,063	10,063

18 Financial instruments (continued)

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

Neither the Group or the Company defaulted on any loans during the year. In addition the Group and 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	2017 £000	2016 £000
Trade receivables		
Banks and financial institutions	**1,503**	559
Other corporates	**5,462**	2,497
Total current trade receivables	**6,965**	3,056
Overdue trade receivables	**3,531**	3,428
Total trade receivables	**10,496**	6,484

Cash at bank and short-term bank deposits	Current Rating (Moody's)	2017 £000	2016 £000
	Aa2	**261**	523
	Aa3	**2,537**	109
	A1	**4,332**	6,663
	A2	**10,619**	–
	A3	**–**	16,069
	Baa2	**772**	250
	Caa1	**64**	40
	Caa2	**–**	195
	No rating	**552**	–
		19,137	23,849

Following the year end, the funds held by the financial institution for which no Moody's rating was available were transferred in full to another bank account of the Group. These funds were part of the cash balance acquired on the acquisition of Aptitude RevStream Inc.

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

19 Share capital

Group and Company	31 Dec 2017 Number	31 Dec 2017 £000	31 Dec 2016 Number	31 Dec 2016 £000
Ordinary shares of 6 3⁄7p each				
Issued and fully paid:				
At 1 January	**59,297,030**	**3,811**	59,060,521	3,796
Issued under share option schemes	**1,581,659**	**102**	236,509	15
At 31 December	**60,878,689**	**3,913**	59,297,030	3,811
Shares to be issued:				
Deferred equity consideration on acquisition	**398,518**	**26**	–	–
Total Ordinary shares issued and to be issued at 31 December	**61,277,207**	**3,939**	59,297,030	3,811

The 398,518 shares to be issued represents the deferral equity consideration arising on the acquisition of Aptitude RevStream Inc. These shares have been recognised at the market value on date of acquisition and are due to be issued in August 2019.

The number of ordinary shares for which Microgen employees hold options and the period to which the options are exercisable are as follows (note 26):

Period	Year of grant	Exercise price	2017 Number	2016 Number
Between 6 August 2010 and 6 August 2017	2007	5p	**–**	16,670
Between 6 August 2010 and 6 August 2017	2007	46.83p	**–**	8,667
Between 28 February 2011 and 28 February 2018	2008	48.17p	**20,832**	20,832
Between 2 December 2011 and 2 December 2018	2008	43.50p	**24,999**	24,999
Between 2 December 2011 and 2 December 2018	2008	5p	**–**	18,334
Between 3 March 2014 and 3 March 2021	2011	140p	**–**	17,205
Between 18 November 2016 and 18 November 2023	2013	5p	**–**	1,481,100
Between 18 November 2018 and 18 November 2023	2013	5p	**842,403**	899,321
Between 21 October 2018 and 21 October 2025	2015	6 3⁄7p	**690,000**	690,000
Between 3 August 2019 and 3 August 2026	2016	6 3⁄7p	**601,037**	601,037
Between 3 August 2019 and 3 August 2026	2016	6 3⁄7p	**386,476**	386,476
Between 1 November 2019 and 1 May 2020	2016	190.5p	**199,491**	203,269
Between 1 November 2019 and 1 May 2020	2016	186.5p	**541,195**	576,383
Between 1 November 2020 and 1 May 2021	2017	450.5p	**89,944**	–
Between 1 November 2020 and 1 May 2021	2017	433.0p	**122,754**	–
Between 1 December 2020 and 1 June 2021	2017	400.0p	**108,692**	–
Between March 2022 and 10 August 2027	2017	6 3⁄7p	**142,980**	–
Between March 2020 and 10 August 2027	2017	6 3⁄7p	**126,285**	–
Between March 2020 and 15 March 2021	2017	6 3⁄7p	**243,115**	–
			4,140,203	4,944,293

20 Share premium account

	2017 £000	2016 £000
Group and Company		
At 1 January	**4,498**	4,484
Premium on shares issued during the year under the share option schemes	**4**	14
Premium on shares to be issued	**1,947**	–
At 31 December	**6,449**	4,498

21 Other reserves

	Derivatives hedge reserve £000	Merger reserve £000	Total £000
Group			
At 1 January 2016	(197)	34,195	33,998
– net fair value gains in the period	133	–	133
At 31 December 2016	(64)	34,195	34,131
Cash flow hedges			
– net fair value gains in the period	148	–	148
At 31 December 2017	**84**	**34,195**	**34,279**

	Derivatives hedge reserve £000	Merger reserve £000	Total £000
Company			
At 1 January and 31 December 2016	–	17,398	17,398
Cash flow hedges			
– net fair value losses in the period	(12)	–	(12)
At 31 December 2017	**(12)**	**17,398**	**17,386**

22 (Accumulated losses)/retained earnings

	Group £000	Company £000
At 1 January 2016	(16,121)	5,848
Profit for the year	6,243	2,966
Share options – value of employee service (note 26)	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
Profit for the year	9,936	10,270
Share options – value of employee service (note 26)	796	796
Deferred tax on financial instruments (note 12)	39	–
Deferred tax on share options (note 12)	383	–
Corporation tax on share options	492	–
Dividends paid (note 7)	(3,345)	(3,345)
At 31 December 2017	**(3,251)**	**14,605**

The profit for the financial year dealt with in the financial statements of the Company was £10,270,000 (2016: £2,966,000). 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. Of the Company's £14,605,000 retained earnings, £10,686,000 (2016: £3,649,000) is distributable to shareholders following adjustment for the cumulative impact of share options value of service through reserves.

23 Cash flows from operating activities

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

	Group Year ended 31 Dec 2017 £000	Group Year ended 31 Dec 2016 £000	**Company Year ended 31 Dec 2017 £000**	Company Year ended 31 Dec 2016 £000
Profit before tax	**10,777**	7,881	**10,270**	2,966
Adjustments for:				
Depreciation	**707**	601	**54**	–
Amortisation	**1,316**	812	**–**	–
Share-based payment expense	**796**	610	**113**	–
Finance income	**(13)**	(66)	**(5)**	(30)
Finance costs	**316**	397	**135**	–
Dividend income, net of intra-group dividend paid	**–**	–	**(3,500)**	(3,500)
Changes in working capital excluding the effects of acquisition:				
Increase in receivables	**(3,461)**	(3,412)	**(155)**	(107)
Increase in payables	**3,020**	6,173	**191**	510
Increase in provisions	**93**	36	**–**	–
Cash generated from/(used in) operations	**13,551**	13,032	**7,103**	(161)

24 Acquisitions

RevStream Inc. ("RevStream")

On 31 August 2017 the Group acquired the entire share capital and voting rights of RevStream Inc. (subsequently renamed Aptitude RevStream Inc.) for consideration of £9.3 million, £0.4 million lower than the consideration value announced on 31 August 2017 following the finalisation of the Company's working capital position at acquisition. Following acquisition the Group settled £2.5 million of debt and other liabilities which were outstanding at acquisition. Of the consideration, £7.3 million was paid in 2017 with the remaining £2.0 million payable in the form of 398,518 shares which will be issued in August 2019.

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

Net assets acquired	Carrying values pre acquisition £000	Fair value adjustments £000	Provisional fair value £000
Intangible fixed assets	–	8,460	8,460
Deferred tax liability	–	(3,638)	(3,638)
Property, plant and equipment	38	–	38
Trade and other receivables	1,419	–	1,419
Cash and cash equivalents	232	–	232
Trade and other payables	(3,935)	–	(3,935)
Deferred income	(1,678)	–	(1,678)
	(3,924)	4,822	898
Goodwill			8,440
Total consideration			9,338
Satisfied by			
Cash paid			7,365
Deferred equity consideration			1,973
			9,338

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

	Provisional fair value £000
Software IPR and in process R&D	5,011
Customer relationships	3,449
	8,460

RevStream generated £2.7 million of revenue on a break-even basis in 2017 whilst under Microgen's ownership. Costs in relation to the acquisition are included within non-underlying items.

If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and loss for the year ended 31 December 2017 would have been £7.4 million and £0.7 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for differences in the accounting policies and procedures between the Group and the subsidiary.

24 Acquisitions (continued)

Primacy Corporation ("Primacy")

On 27 February 2017 the Group acquired the entire share capital and voting rights of Primacy Corporation (subsequently renamed Microgen Software (Primacy) Limited) for consideration in cash of £3.4 million.

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

Net assets acquired	Carrying values pre acquisition £000	Fair value adjustments £000	Provisional fair value £000
Intangible fixed assets	–	3,421	3,421
Deferred tax liability	–	(889)	(889)
Property, plant and equipment	25	–	25
Trade and other receivables	144	–	144
Cash and cash equivalents	122	–	122
Trade and other payables	(68)	–	(68)
Deferred income	(195)	–	(195)
	28	2,532	2,560
Goodwill			889
Total consideration			3,449
Satisfied by			
Cash paid on completion			3,449
			3,449

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

	Provisional fair value £000
Software IPR and in process R&D	236
Customer relationships	3,185
	3,421

Primacy generated £0.8 million of revenue and £0.4 million profit before non-underlying items in 2017 whilst under Microgen's ownership. Costs in relation to the acquisition are included within non-underlying items.

If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and profit before non-underlying items for the year ended 31 December 2017 would have been £1.1 million and £0.4 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for differences in the accounting policies and procedures between the Group and the subsidiary.

Infoscreen (Cyprus) Limited

At 31 December 2016, the fair value adjustments for the May 2016 acquisition of Infoscreen (Cyprus) Limited were provisional. The Group have completed the review in 2017 and the net assets acquired in 2016 and the intangibles arising remain at the provisional values disclosed within the 2016 annual report.

25 Commitments and operating leases

The Group and Company have no unprovided financial commitments (2016: £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 2017		31 Dec 2016	
	Properties £000	**Other £000**	Properties £000	Other £000
Within one year	**1,302**	**3**	839	4
In the second to fifth year inclusive	**2,040**	**1**	341	4
	3,342	**4**	1,180	8

The Company had no operating lease commitments during the year (2016: £nil)

26 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 2016 Performance Share Plan. For the purposes of this note 26, 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.

512,380 options were granted between 10 August and 2 October 2017 (2016: 987,513 awards granted). The performance conditions are in line with those described for the Executive Directors on page 49.

At the year end there were 30 (2016: 26) employees currently participating in the scheme. Exercise of an option is subject to continued employment.

26 Share based payments (continued)

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

	2017 Number	**2017** Weighted average exercise price	2016 Number	2016 Weighted average exercise price
Outstanding at 1 January	**4,092,948**	**5.59p**	5,900,004	5.17p
Granted	**512,380**	**6 3/7p**	987,513	6 3/7p
Exercised	**(1,555,788)**	**5p**	(196,010)	5p
Lapsed	**–**	**–**	(39,076)	5p
Forfeited	**(17,244)**	**5p**	(2,559,483)	5p
Outstanding at 31 December	**3,032,296**	**6.04p**	4,092,948	5.59p
Exercisable at 31 December	**–**	**–**	1,516,104	5p

1,555,788 PSP share options were exercised in 2017. The weighted average share price at the date of exercise for share options exercised during 2017 under the Share Option Plans was 238.4p.

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 7.32 years (2016: 7.82 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 2017, 242 employees (2016: 146) 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:

	2017 Number	**2017** Weighted average exercise price	2016 Number	2016 Weighted average exercise price
Outstanding at 1 January	**851,355**	**177.51p**	115,535	61.21p
Granted	**324,921**	**426.57p**	779,652	187.54p
Exercised	**(25,871)**	**108.79p**	(40,499)	48.62p
Lapsed	**(42,498)**	**205.19p**	(3,333)	59.33p
Outstanding at 31 December	**1,107,907**	**253.61p**	851,355	177.51p
Exercisable at 31 December	**45,831**	**45.62p**	71,703	68.41p

26 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 359.3p (2016: 163.1p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 2.55 years (2016: 3.23 years).

Included within the outstanding share options at 31 December 2017 under Share Option Plans and the PSP were outstanding share options of 2,133,440 (2016: 3,670,951) 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 £796,000 (2016: £610,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total charge in the income statement was £843,000 (2016: £548,000). There was a deferred tax credit of £383,000 (2016: £227,000) and a corporation tax credit of £492,000 (2016: £68,000) taken directly to equity.

27 Retirement benefit schemes

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

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

The total expense recognised in the income statement of £656,000 (2016: £605,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2017, contributions of £55,000 (2016: £44,000) due in respect of the 2017 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.

28 Related party transactions

Group

The following transactions were carried out with related parties:

During 2017, the Group entered into transactions with a subsidiary of FDM Group (Holdings) plc, a company for which Ivan Martin (Chairman) and Peter Whiting (Non-Executive Director) are current Non-Executive Directors. FDM Group (Holdings) plc provided consultancy services to the Group during the year at a cost of £99,000. No equivalent transaction occurred during 2016.

During 2017, the Group entered into transactions with Phoenix Johnson Ltd, a company for which Naomi Johnson, the wife of Tom Crawford (Director), is both the sole shareholder and an employee. Phoenix Johnson Ltd provided consultancy services to Microgen plc during the year at a cost of £9,000. No equivalent transaction occurred during 2016.

The Company acts as the Group's treasury vehicle and during the year was owed a net £4,217,000 (2016: borrowed a net £7,164,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2017 (2016: 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	565	58.0%	173,065	0.3%
1,001 – 5,000	208	21.3%	481,440	0.8%
5,001 – 50,000	129	13.2%	2,014,197	3.3%
50,001 – 500,000	49	5.0%	8,634,674	14.2%
500,000 and above	24	2.5%	49,586,852	81.4%
Totals	**975**	**100.0%**	**60,890,228**	**100.0%**

Investor Type	Number of shares	Percentage of total issued shares
Nominee Companies	45,488,022	74.7%
Bank & Bank Nominees	7,484,782	12.3%
Private Shareholders	5,865,166	9.6%
Pension Funds	1,700,000	2.8%
Limited Companies	227,382	0.4%
Other Institutions	106,835	0.2%
Deceased Shareholders	18,041	0.0%
Totals	**60,890,228**	**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

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

Telephone: 0871 664 0300
e-mail: shareholderenquiries@linkgroup.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 Link 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 23 April 2018 at Old Change House, 128 Queen Victoria Street, London EC4V 4BJ. Details are given in a separate notice to shareholders enclosed with this Annual Report. A copy of the Notice of Annual General Meeting together with this Annual Report is posted on the Company's website www.microgen.com.

microgen plc

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