

microgen

microgen plc
interim report

2014

Highlights

Microgen reports its unaudited results for the six months ended 30 June 2014.

Highlights

Aptitude Software

- Satisfactory progress on strategic direction set out in 2013 Strategic Review
- Software revenue growth of 13% to £4.5 million (H1, 2013: £4.0 million) with overall revenue increasing to £7.6 million (H1, 2013: £7.4 million)
- Increase in sales activity with paid proof of concept and scoping exercises underway in the telecommunications and other sectors

Financial Systems

- Substantial increase in ROCE following capital restructuring in 2013 Strategic Review
- Consolidation of minor product lines into Application Management group
- Revenue of £7.2 million (H1, 2013: £7.6 million) in line with Board expectations
- Operating margin 50% (H1, 2013: 54%)

Group

- Strong balance sheet with cash of £37.9 million (H1, 2013: £26.8 million) and net funds of £20.2 million (H1, 2013: £26.8 million) following the return of £12.5 million in the last twelve months to shareholders by way of tender offer and dividends
- Group adjusted operating profit reduced to £3.7 million (H1, 2013: £4.4 million)* in line with investment strategy in the Aptitude Software business. Group operating profit on a statutory basis of £3.3 million (H1, 2013: £4.4 million)
- Basic earnings per share 3.2 pence (H1, 2013: 4.2 pence)
- Interim dividend of 1.1 pence per share (2013: 1.1 pence per share)

*Throughout this statement adjusted operating profit and margin excludes exceptional and other items, unless stated to the contrary.

The Group reports satisfactory progress on the strategic direction set out in the review which was completed in October 2013 ("Strategic Review"). The Strategic Review detailed that the Group strategy is to "Acquire, Enhance and Realise Value" for Microgen shareholders. As a result Microgen plc is now the corporate parent of technology businesses operated as independent business units. Pursuant to the Strategic Review, investment has been significantly increased in the Aptitude Software business in order to pursue the developing Big Data opportunity. In parallel, the Financial Systems business is focussing resources on the wealth management sector and reported a substantial increase in return on capital employed ("ROCE") following the change in capital structure.

Microgen maintains a strong balance sheet with significant cash resources, after returning £12.5 million of cash to shareholders in the last twelve months by way of tender offer and dividends. The interim dividend is maintained at 1.1 pence per share (2013: 1.1 pence). The interim dividend will be payable on 22 August 2014 to shareholders on the register at the close of business on 1 August 2014.

Aptitude Software Report

Benefitting from the previously announced new European and North American clients, software revenue has increased by 13% to £4.5 million (H1, 2013: £4.0 million) with recurring revenue now representing 55% of total revenue (H1, 2013: 54%). Overall revenue

increased to £7.6 million (H1, 2013: £7.4 million). The increased investment in the business pursuant to the Strategic Review has led to operating margins being lowered to 11% (H1, 2013: 20%) delivering an operating profit of £0.8 million (H1, 2013: £1.5 million).

There have been a number of important product developments in the period with the latest version of the Aptitude software being launched in April 2014 in line with the timetable set out in the Strategic Review. This release provided Aptitude customers with the ability to incorporate Hadoop into Aptitude-based Big Data solutions, consistent with the Aptitude multi-platform product strategy. Following the release in January of the Aptitude Allocation Engine the business further announced, in May, the Aptitude Revenue Recognition Engine which provides a solution to the new IFRS 15 accounting requirements which apply to a number of industry sectors including telecommunications. Benefitting from these product developments and the investments made in direct sales and partnerships, sales activity has increased with a number of opportunities well advanced with paid proof of concept and scoping exercises underway in the telecommunication and other sectors.

Tangible results from the Aptitude investment programme will take time and in the short term will be partially offset by the conclusion of the legacy OST-BR transition programme. Nevertheless, the new European and North American clients, together with the sales and product development activities, continue

to provide exciting opportunities for the future.

Financial Systems Report

Revenue from wealth management products of £3.9 million (H1, 2013: £3.9 million) represents 54% (H1, 2013: 52%) of Financial Systems revenue. The wealth management product for trust and fund administration, 5Series, continues to be well received by the market with a number of new business wins. Revenue from the payment software products remains stable whilst the Application Management business, now incorporating the minor financial services product categories, continued to decline as anticipated. Overall reported revenue was £7.2 million (H1, 2013: £7.6 million), in line with the Board's expectations.

The Financial Systems business continues to report strong operating profits of £3.6 million (H1, 2013: £4.1 million) representing an operating margin of 50% in 2013 (H1, 2013: 54%). The reduction is due to the decline in the Application Management business and the effect of some previous corporate/central costs having been transferred into the business operations in accordance with the Group strategy of independent business units.

Following the capital reorganisation of the Financial Systems business last year, the six month Return on Capital Employed ("ROCE") for H1 2014 increased to 24% (H1, 2013: 10%). For the purposes of calculating ROCE, capital is defined as being the average of the consolidated net assets of the business at the beginning

and end of each period. The interest cost in the period was £0.3 million (H1, 2013: £nil). The loan outstanding at 30 June 2014 was £17.8 million (H1, 2013: £nil).

In pursuing the major strategic objective of the business, namely to increase the proportion of revenues generated from the wealth management sector, the business is progressing a number of add-on acquisitions. However, the Board remains prudent and there can be no certainty that any acquisitions will be completed in the near future.

Group Activities

Microgen continues to identify and appraise technology businesses and strategic investments which the Board believes, based on the Group's capabilities, may benefit from being operated as a business unit under Microgen's stewardship. The businesses and investments evaluated to date have been predominantly UK based across a broad technology spectrum. The Group's balance sheet, with cash of £37.9 million at 30 June 2014 (H1, 2013: £26.8 million) and net funds of £20.2 million (H1, 2013: £26.8 million), provides the Group with the cash resources to be a credible acquirer. However, the Board will maintain its prudent approach and there can be no certainty that any acquisition will be completed.

Group Financial Performance

Aggregating the business units, revenue for the six months ending 30 June 2014 was £14.7 million (H1, 2013:

£14.9 million). Including Group costs of £0.8 million (H1, 2013: £1.1 million), adjusted operating profit was in line with expectations at £3.7 million (H1, 2013: £4.4 million). Whilst the majority of the Group's revenue is invoiced in Pounds Sterling, the Group has revenue exposure to US Dollars and South African Rand. Relative to the first half of 2013, due to the strengthening of Sterling, the Group had a negative revenue variance of £0.3 million and a net negative profit impact of £0.1 million.

Operating profit on a statutory basis was £3.3 million (H1, 2013: £4.4 million). The Group reported a profit for the period attributable to equity shareholders of £2.4 million (H1, 2013: £3.5 million). In accordance with IFRS, the Board has continued to determine that all internal research and development costs are expensed as incurred and therefore the Group has no capitalisation of development expenditure.

A profit and loss charge of £0.4 million was incurred in the period in respect of options approved by shareholders in November 2013. This cost is included in 'exceptional and other items'. The total tax charge of £0.7 million (H1, 2013: £1.0 million) represents 21.5% of the Group's profit before tax (H1, 2013: 23.0%).

The Group continues to have a strong balance sheet with net assets at 30 June 2014 of £55.5 million (H1, 2013: £62.2 million), including cash at 30 June 2014 of £37.9 million (H1, 2013: £26.8 million), and net funds at 30 June 2014 of £20.2 million (H1, 2013: £26.8 million)

following the return of £12.5 million in the last twelve months to shareholders by way of tender offer and dividends.

Statement on Principal Risks and Uncertainties

Pursuant to the requirements of the Disclosure and Transparency Rules the Group provides the following information on its principal risks and uncertainties. The Group considers strategic, operational and financial risks and identifies actions to mitigate those risks. These risk profiles are updated at least annually. The principal risks and uncertainties detailed within the Group's 2013 Annual Report remain applicable for the first six months of the financial year. The Group's 2013 Annual Report is available from the Microgen website: www.microgen.com.

Related party transactions during the period are disclosed in Note 14.

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2014

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	Note	Unaudited six months ended 30 Jun 2014			Unaudited six months ended 30 Jun 2013			Audited year ended 31 Dec 2013		
		Before exceptional and other items	Exceptional and other items	Total	Before exceptional and other items	Exceptional and other items	Total	Before exceptional and other items	Exceptional and other items	Total
Revenue		£000	£000	£000	£000	£000	£000	£000	£000	£000
Operating costs	5	14,711	–	14,711	14,945	–	14,945	29,824	–	29,824
		(11,014)	(427)	(11,441)	(10,502)	–	(10,502)	(20,755)	(381)	(21,136)
Operating profit	5	3,697	(427)	3,270	4,443	–	4,443	9,069	(381)	8,688
Finance income	5	82	–	82	67	–	67	119	–	119
Finance costs	5	(304)	–	(304)	–	–	–	(119)	–	(119)
Profit before income tax		3,475	(427)	3,048	4,510	–	4,510	9,069	(381)	8,688
Income tax expense	5/6			(656)			(1,037)			(2,250)
Profit for the period				2,392			3,473			6,438
Earnings per share										
Basic	7			3.2p			4.2p			7.9p
Diluted	7			3.0p			4.2p			7.7p

All results derive from continuing operations.

Condensed Consolidated Interim **microgen**

Statement Of Comprehensive Income

For the six months ended 30 June 2014

	Unaudited six months ended 30 Jun 2014 £000	Unaudited six months ended 30 Jun 2013 £000	Audited year ended 31 Dec 2013 £000
Profit for the period	2,392	3,473	6,438
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Fair value loss on hedged financial instruments	(69)	(71)	(7)
Currency translation difference	(32)	(23)	75
Other comprehensive income for the period, net of tax	(101)	(94)	68
Total comprehensive income for the period	2,291	3,379	6,506

Condensed Consolidated Interim Balance Sheet

As at 30 June 2014

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	Note	Unaudited as at 30 Jun 2014 £000	Unaudited as at 30 Jun 2013 £000	Audited as at 31 Dec 2013 £000
ASSETS				
Non-current assets				
Property, plant and equipment	10	4,964	5,277	5,022
Goodwill		41,774	41,774	41,774
Deferred income tax assets		742	1,016	752
		<u>47,480</u>	<u>48,067</u>	<u>47,548</u>
Current assets				
Trade and other receivables		3,308	4,178	5,049
Current income tax assets		30	159	–
Financial assets – derivative financial instruments		104	51	94
Cash and cash equivalents		37,923	26,783	40,200
		<u>41,365</u>	<u>31,171</u>	<u>45,343</u>
Total assets		<u>88,845</u>	<u>79,238</u>	<u>92,891</u>
LIABILITIES				
Current liabilities				
Financial liabilities				
– borrowings	11	(3,000)	–	(3,000)
– derivative financial instruments		(125)	(67)	(47)
Trade and other payables		(14,415)	(15,416)	(18,186)
Current income tax liabilities		(767)	(1,305)	(701)
Provisions for other liabilities and charges	12	(32)	(38)	(33)
		<u>(18,339)</u>	<u>(16,826)</u>	<u>(21,967)</u>
Net current assets		<u>23,026</u>	<u>14,345</u>	<u>23,376</u>
Non-current liabilities				
Financial liabilities – borrowings	11	(14,750)	–	(16,250)
Provisions for other liabilities and charges	12	(266)	(255)	(269)
		<u>(15,016)</u>	<u>(255)</u>	<u>(16,519)</u>
NET ASSETS		<u>55,490</u>	<u>62,157</u>	<u>54,405</u>
SHAREHOLDERS' EQUITY				
Share capital	13	3,727	4,129	3,724
Share premium account	13	12,040	12,015	12,037
Capital redemption reserve		1,558	1,152	1,558
Other reserves		36,952	36,957	37,021
Retained earnings		1,213	7,904	65
TOTAL EQUITY		<u>55,490</u>	<u>62,157</u>	<u>54,405</u>

Condensed Consolidated Interim

Statement Of Changes In Equity

For the six months ended 30 June 2014

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	Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	Total £000
Balance at 1 January 2014	3,724	12,037	65	1,558	37,021	54,405
Comprehensive income						
Profit for the period	–	–	2,392	–	–	2,392
Cash flow hedges						
– net fair value losses	–	–	–	–	(69)	(69)
Exchange rate adjustments	–	–	(32)	–	–	(32)
Total comprehensive income for the period	–	–	2,360	–	(69)	2,291
Shares issued under share option schemes	3	3	–	–	–	6
Share options – value of employee service	–	–	427	–	–	427
Dividends to equity holders of the company	–	–	(1,639)	–	–	(1,639)
Total contributions by and distributions to owners of the company recognised directly into equity	3	3	(1,212)	–	–	(1,206)
Balance at 30 June 2014 (unaudited)	3,727	12,040	1,213	1,558	36,952	55,490

	Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	Total £000
Balance at 1 January 2013	4,078	11,885	10,529	1,152	37,028	64,672
Comprehensive income						
Profit for the period	–	–	3,473	–	–	3,473
Cash flow hedges						
– net fair value losses	–	–	–	–	(71)	(71)
Exchange rate adjustments	–	–	(23)	–	–	(23)
Total comprehensive income for the period	–	–	3,450	–	(71)	3,379
Shares issued under share option schemes	51	130	–	–	–	181
Share options – value of employee service	–	–	33	–	–	33
Dividends to equity holders of the company	–	–	(6,108)	–	–	(6,108)
Total contributions by and distributions to owners of the company recognised directly into equity	51	130	(6,075)	–	–	(5,894)
Balance at 30 June 2013 (unaudited)	4,129	12,015	7,904	1,152	36,957	62,157

Condensed Consolidated Interim Statements Of Cash Flow

For the six months ended 30 June 2014

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	Note	Unaudited as at 30 Jun 2014 £000	Unaudited as at 30 Jun 2013 £000	Audited as at 31 Dec 2013 £000
Cash flows from operating activities				
Cash generated from operations	8	2,037	1,416	8,103
Interest paid		(304)	–	(119)
Income tax paid		(630)	(633)	(1,728)
Net cash flows generated from operating activities		1,103	783	6,256
Cash flows from investing activities				
Purchase of property, plant and equipment	10	(336)	(282)	(427)
Interest received		82	67	119
Net cash used in investing activities		(254)	(215)	(308)
Cash flows from financing activities				
Proceeds from bank loan		–	–	20,000
Net proceeds from issuance of ordinary shares	13	6	181	204
Dividends paid to company's shareholders	9	(1,639)	(6,108)	(7,016)
Repayments of loan		(1,500)	–	(750)
Purchase of own shares		–	–	(10,269)
Net cash (used in)/generated from financing activities		(3,133)	(5,927)	2,169
Net (decrease)/ increase in cash and cash equivalents		(2,284)	(5,359)	8,117
Cash, cash equivalents and bank overdrafts at beginning of period		40,200	32,134	32,134
Exchange rate gains/ (losses) on cash and cash equivalents		7	8	(51)
Cash and cash equivalents at end of period		37,923	26,783	40,200

Notes to the condensed **microgen** *consolidated interim financial statements*

1. General information

Microgen plc (the 'Company') and its subsidiaries (together, the 'Group') provide software and services to the global financial services, digital media and commercial sectors.

The Company is a public limited company incorporated and domiciled in England and Wales with a primary listing on the London Stock Exchange. The address of its registered office is Old Change House, 128 Queen Victoria Street, London, England, EC4V 4BJ.

These condensed consolidated interim financial statements were approved for issue on 18 July 2014.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 were approved by the Board of Directors on 25 February 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

These condensed consolidated interim financial statements have been reviewed, not audited.

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

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

3. Accounting policies

The accounting policies adopted are consistent with those of the previous financial statements, except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profits.

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date. There are no new IFRSs or IFRS ICs that are effective for the first time for this interim period that would be expected to have a material impact on the group.

Notes to the condensed **microgen** consolidated interim financial statements

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013, with the exception of changes in estimates that are required in determining the provision for income taxes.

5. Segmental information

The Board of Microgen plc (the "Board") has been identified as the chief operating decision maker of Microgen. Management has determined the operating segments of the group based on the reports provided to the Board of Microgen plc.

	Unaudited six months ended 30 June 2014			
	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Revenue	7,560	7,151	–	14,711
Operating costs	<u>(6,722)</u>	<u>(3,541)</u>	<u>–</u>	<u>(10,263)</u>
Operating profit before group overheads	838	3,610	–	4,448
Unallocated group overheads			(751)	<u>(751)</u>
Operating profit before exceptional and other items				3,697
Exceptional and other items	<u>–</u>	<u>–</u>	<u>(427)</u>	<u>(427)</u>
Operating profit/ (loss)	<u>838</u>	<u>3,610</u>	<u>(1,178)</u>	<u>3,270</u>
Finance income				82
Finance costs				<u>(304)</u>
Profit before tax				3,048
Income tax expense				<u>(656)</u>
Profit for the period				<u><u>2,392</u></u>

Notes to the condensed **microgen** *consolidated interim financial statements*

5. Segmental information (continued)

	Unaudited six months ended 30 June 2013			
	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Revenue	7,376	7,569	–	14,945
Operating costs	<u>(5,871)</u>	<u>(3,498)</u>	<u>–</u>	<u>(9,369)</u>
Operating profit before group overheads	1,505	4,071	–	<u>5,576</u>
Unallocated group overheads	<u> </u>	<u> </u>	<u>(1,133)</u>	<u>(1,133)</u>
Operating profit/ (loss)	<u>1,505</u>	<u>4,071</u>	<u>(1,133)</u>	4,443
Finance income				<u>67</u>
Profit before tax				4,510
Income tax expense				<u>(1,037)</u>
Profit for the period				<u><u>3,473</u></u>

Notes to the condensed **microgen** consolidated interim financial statements

5. Segmental information (continued)

	Audited year ended 31 December 2013			
	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Revenue	14,676	15,148	–	29,824
Operating costs	<u>(11,839)</u>	<u>(7,042)</u>	<u>–</u>	<u>(18,881)</u>
Operating profit before group overheads	2,837	8,106	–	10,943
Unallocated group overheads			(1,874)	<u>(1,874)</u>
Operating profit before exceptional and other items				9,069
Exceptional and other items	<u>–</u>	<u>(285)</u>	<u>(96)</u>	<u>(381)</u>
Operating profit/ (loss)	<u>2,837</u>	<u>7,821</u>	<u>(1,970)</u>	8,688
Finance income				119
Finance costs				<u>(119)</u>
Profit before tax				8,688
Income tax expense				<u>(2,250)</u>
Profit for the year				<u>6,438</u>

6. Income tax expense

Income tax expense is recognised based on management's estimate of the weighted average income tax rate expected for the full financial year of 21.5% (the estimated tax rate for the six months ended 30 June 2013 was 23%).

7. Earnings per share

	Unaudited six months ended 30 Jun 2014 pence	Unaudited six months ended 30 Jun 2013 pence	Audited year ended 31 Dec 2013 pence
Earnings per share			
Basic	<u>3.2</u>	<u>4.2</u>	<u>7.9</u>
Diluted	<u>3.0</u>	<u>4.2</u>	<u>7.7</u>
Adjusted earnings per share			
Basic	<u>3.6</u>	<u>4.2</u>	<u>8.3</u>
Diluted	<u>3.4</u>	<u>4.2</u>	<u>8.1</u>

To provide an indication of the underlying operating performance the adjusted earnings per share calculation above excludes intangible amortisation and exceptional and other items, and has a tax charge based on the effective rate.

	Unaudited six months ended 30 Jun 2014 pence	Unaudited six months ended 30 Jun 2013 pence	Audited year ended 31 Dec 2013 pence
Basic earnings per share	3.2	4.2	7.9
Prior years' tax charge	–	–	0.1
Exceptional and other items net of tax	0.4	–	0.3
Foreign exchange gains on intercompany balances tax charge	–	–	0.1
Tax losses recognised	<u>–</u>	<u>–</u>	<u>(0.1)</u>
Adjusted earnings per share	<u>3.6</u>	<u>4.2</u>	<u>8.3</u>

8. Cash generated from operations

	Unaudited six months ended 30 Jun 2014 £000	Unaudited six months ended 30 Jun 2013 £000	Audited year ended 31 Dec 2013 £000
Profit before tax	3,048	4,510	8,688
Adjustments for:			
Depreciation	374	389	790
Loss on disposal of fixed assets	–	–	9
Share-based payment expense	427	33	157
Finance income	(82)	(67)	(119)
Finance cost	304	–	119
Changes in working capital:			
Decrease/ (increase) in receivables	1,741	(1,015)	(1,886)
(Decrease)/ increase in payables	(3,771)	(2,429)	341
(Decrease)/ increase in provisions	(4)	(5)	4
Cash generated from operations	2,037	1,416	8,103

9. Dividends

The interim dividend of 1.1 pence per share (2013: 1.1 pence per share) was approved by the Board on 18 July 2014. It is payable on 22 August 2014 to shareholders on the register at 1 August 2014.

This interim dividend, amounting to £820,000 (2013: £908,000), has not been included as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2014.

The dividend that relates to the period to 31 December 2013 and that amounted to £1,639,000 (2012: final dividend £1,816,000 and special dividend of £4,292,000) was paid in May 2014.

Notes to the condensed **microgen** consolidated interim financial statements

10. Property, plant and equipment

	Property, plant and equipment £000
Six months ended 30 June 2014	
Opening net book amount as at 1 January 2014	5,022
Additions	336
Exchange movements	(20)
Depreciation	(374)
Closing net book amount as at 30 June 2014 (unaudited)	<u>4,964</u>

	Property, plant and equipment £000
Six months ended 30 June 2013	
Opening net book amount as at 1 January 2013	5,391
Additions	282
Exchange movements	(7)
Depreciation	(389)
Closing net book amount as at 30 June 2013 (unaudited)	<u>5,277</u>

The Group has not placed contracts for any future capital expenditure which has not been provided for in the financial statements.

11. Financial liabilities

	Unaudited six months ended 30 Jun 2014 £000
At 1 January	19,250
Loan repayments	(1,500)
At 30 June	<u>17,750</u>
The borrowings are repayable as follows:	
Within one year	3,000
In the second year	3,000
In the third to fifth year inclusive	11,750
	<u>17,750</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	(3,000)
Amount due for settlement after 12 months	<u>14,750</u>

Notes to the condensed **microgen** consolidated interim financial statements

11. Financial liabilities (continued)

On 28 October 2013 Microgen Financial Systems Limited, a wholly owned subsidiary of Microgen plc, entered into a loan agreement with Royal Bank of Scotland plc for £20,000,000. The loan is secured solely against the assets of the Financial Systems operating business of the Group. Operating covenants are limited to the performance of the Financial Systems business only and are based on net debt leverage, interest cover and a minimum cash balance of £3,000,000 held within the Financial Systems business. In the event of a default of the loan, Microgen plc has the option, but not the obligation, to remedy. The loan is repayable over five years with an annual capital repayment of £3,000,000 and a final repayment of £5,000,000 on the fifth anniversary of the loan agreement. The loan is denominated in Pound Sterling and carries interest at LIBOR plus 1.75%. The Group entered into an interest swap on 28 October 2013, effectively fixing the interest rate at 3.24% over the five year period.

12. Provisions for other liabilities and charges

	Unaudited six months ended 30 Jun 2014 £000	Unaudited six months ended 30 Jun 2013 £000
At 1 January	302	298
Foreign exchange	(4)	(5)
At 30 June	298	293

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

	Unaudited six months ended 30 Jun 2014 £000	Unaudited six months ended 30 Jun 2013 £000
Current	32	38
Non-current	266	255
At 30 June	298	293

Notes to the condensed **microgen** consolidated interim financial statements

13. Share capital

Six months ended 30 June 2014	Number of shares (thousands)	Ordinary shares £000	Share premium £000	Total £000
Opening balance as at 1 January 2014	74,499	3,724	12,037	15,761
Proceeds from shares issued – employee share schemes	<u>61</u>	<u>3</u>	<u>3</u>	<u>6</u>
Closing balance as at 30 June 2014 (unaudited)	<u>74,560</u>	<u>3,727</u>	<u>12,040</u>	<u>15,767</u>
Six months ended 30 June 2013	Number of shares (thousands)	Ordinary shares £000	Share premium £000	Total £000
Opening balance as at 1 January 2013	81,582	4,078	11,885	15,963
Proceeds from shares issued – employee share schemes	<u>1,010</u>	<u>51</u>	<u>130</u>	<u>181</u>
Closing balance as at 30 June 2013 (unaudited)	<u>82,592</u>	<u>4,129</u>	<u>12,015</u>	<u>16,144</u>

Employee share option scheme: options exercised during the six month period ended 30 June 2014 resulted in 60,917 shares being issued (30 June 2013: 1,010,060), with exercise proceeds of £6,000 (30 June 2013: £181,000). The related weighted average share price at the time of exercise was £1.20 (30 June 2013: £1.19) per share.

14. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. There were no other related party transactions during the six month period ended 30 June 2014 (30 June 2013: £nil), as defined by International Accounting Standard No 24 'Related Party Disclosures', except for key management compensation.

The related party transactions for the year ended 31 December 2013 as defined by International Accounting Standard No 24 'Related Party Disclosures' are disclosed in note 29 of the Microgen plc Annual Report for the year ended 31 December 2013.

Notes to the condensed **microgen** *consolidated interim financial statements*

15. Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Microgen plc are listed in the Microgen plc Annual Report for 31 December 2013. A list of current directors is maintained on the Microgen plc website: www.microgen.com

Copies of this statement are being posted to shareholders and will also be available on the investor relations page of our website (www.microgen.com). Further copies are available from the Company Secretary at Old Change House, 128 Queen Victoria Street, London, England, EC4V 4BJ.

By order of the Board

P Wood

18 July 2014

Group Finance Director

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the interim report of Microgen plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Microgen plc, comprise:

- the condensed consolidated interim balance sheet as at 30 June 2014;
- the condensed consolidated interim income statement and interim statement of comprehensive income for the period then ended;
- the condensed consolidated interim statements of cash flow for the period then ended;
- the condensed consolidated interim statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review *report to Microgen plc*

microgen

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The interim report, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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. The maintenance and integrity of the Microgen plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PricewaterhouseCoopers LLP
Chartered Accountants
Uxbridge

18 July 2014

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