microgen

microgen plc

annual report

2012

Directors
and Advisors

Martyn Ratcliffe
Chairman
Martyn Ratcliffe was appointed a non-executive director of Microgen plc ("Microgen") on 7 May 1998 and chairman on 31 July 1998. Mr Ratcliffe is also Executive Chairman of Sagentia Group plc and RM plc.

David Sherriff
Chief Executive Officer
David Sherriff joined Microgen on 3 May 1999 as Divisional Managing Director. Mr Sherriff joined the Board on 1 August 2002 and was appointed Chief Executive Officer on 19 April 2011. Prior to joining Microgen he held senior positions within ECsoft UK from 1993 to April 1999, the last two years as Managing Director.

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

Peter Bertram
Senior Independent Non-Executive Director
Peter Bertram was appointed as a non-executive director on 3 October 2006 and Chairman of the Audit Committee on 1 May 2007. On 19 April 2011 Mr Bertram was appointed as the senior independent non-executive director. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Bertram is also Executive Chairman of Phoenix IT Group plc and Chairman of Ten Alps plc.

Vanda Murray OBE
Non-Executive Director
Vanda Murray was appointed as a non-executive director on 1 September 2011 and Chair of the Remuneration Committee on 1 January 2012. Ms Murray was Chief Executive Officer of Blick plc from 2001 to 2004 and is currently Chairman of VPhase plc and non-executive director of Carillion plc, Chemring Group plc, Fenner plc, and The Manchester Airport Group plc.

Peter Whiting
Non-Executive Director
Peter Whiting was appointed as a non-executive director on 2 February 2012. Mr Whiting has over twenty years' experience as an investment analyst, specialising in the software and IT services sector. He joined UBS in 2000, led the UK small and mid-cap research team and was Chief Operating Officer of UBS European Equity Research from 2007 to 2011.

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

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

Financial Advisors and Stockbroker
Investec Bank plc
2 Gresham Street
London EC2V 7QP

Financial Public Relations
FTI Consulting LLP
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Registrars
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Registered Office
Old Change House
128 Queen Victoria Street
London EC4V 4BJ

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Chairman's Statement

Microgen reports a resilient performance for the year ended 31 December 2012 in difficult market conditions. Operating margins increased and strong cash flow was maintained demonstrating the benefit of the Group's conservative operational approach and annual licencing model.

The Microgen Aptitude Solutions Division ("MASD") reported a 23% growth in annual software licences and other recurring revenue, benefitting from the Group's annual licencing model and customers extending the use of Microgen Aptitude and Microgen Accounting Hub. (Recurring revenue includes annual licence fees, software maintenance and support). However, the Division's consulting revenue reflected the economic climate as customer budgetary pressures reduced deployment levels. While the market environment has made the transition more challenging, the increase in software as a proportion of Divisional revenue is consistent with the Board's strategy of value enhancement for this Division.

The Financial Systems Division ("FSD") which provides software products and services in more mature financial market sectors remains highly profitable producing operating margins of 52% in 2012 (2011: 46%) with strong cash flow and high recurring revenues. The FSD division continues to see growth opportunities in the wealth management sector endorsing the investment made in the Division's trust and fund software in recent years.

In summary, taking into account the challenging market environment throughout most of 2012, the Board is satisfied with the financial performance of the Group, particularly the resilient operating profit and cash flow. While sales cycles continue to be extended, the Board remains cautious in its outlook and prudent in its management of the business, but is also responding to the market by developing solutions compatible with more limited customer budgets.

The Group's balance sheet remains very robust with net cash of £32.1 million at 31 December 2012 (2011: £27.0 million). As a result of the strong financial position of Microgen, the Board has decided to propose a special dividend of 5.2 pence per share. The Board is also recommending a final dividend of 2.2 pence per share (2011: 2.2 pence), representing a full year dividend of 3.3 pence (2011: 3.3 pence). Subject to shareholder approval, the proposed final and special dividends will be payable on 28 May 2013 to shareholders on the register at the close of business on 26 April 2013.

As shareholders are aware, the Board introduced the Value Enhancement and Realisation Bonus Scheme ("VERBS") in October 2008 at which time the market capitalisation of Microgen was £37.0 million. Upon payment of the proposed final and special dividends, the Group will have returned 100% of its October 2008 market capitalisation to shareholders through ordinary dividends, special dividends, share buy-backs and tender offers. Furthermore, in addition to this substantial return of capital to shareholders, Microgen had a market capitalisation of £99.1 million at 31 December 2012.

Despite the challenging economic climate in recent years, Microgen has delivered significant value to shareholders and the Board considers the return of 100% of its market capitalisation to be a significant milestone achievement. At the same time, Microgen has maintained a very strong balance sheet throughout this process while reporting excellent profit margins and investing in its products, solutions and operating businesses. The Board continues to explore opportunities to extend this successful value creation and realisation strategy as appropriate.

Martyn Ratcliffe
Chairman

22 February 2013

Microgen has reported a resilient financial performance in 2012 despite the difficult market environment which caused new business sales cycles to be extended and reduced consultancy deployment on existing projects. The resilient financial performance has benefitted from the Group's long term promotion of software sales on multi-year annual licence contracts, conservative revenue recognition policies and the Group's disciplined approach to overhead and operating costs.

- **Microgen Aptitude Solutions Division ("MASD")**

MASD provides enterprise level application products and solutions to some of the world's largest financial and digital media organisations, typically where customers require very high volume (often referred to as "Big Data") processing of complex, business event-driven transactions.

Revenue from annual software licences and other recurring revenue grew by 23% to £7.2 million (2011: £5.9 million) and now represents 44% of the Division's revenue. However, customer budgetary constraints, particularly in the financial services sector, have led to reductions in the number of consultants deployed and services revenue declined to £8.8 million (2011: £15.3 million). While the market environment has made the transition more challenging, the growth in higher margin annual software licences and other recurring revenue, and its increase as a proportion of Divisional revenue, is consistent with the Board's strategy of value enhancement for this Division.

As a result, MASD reported revenue of £16.3 million (2011: £21.8 million) with 57% of the Division's revenue being generated by its top 5 clients (2011: 64%). Strong operating margins of 18% (2011: 19%) delivered an operating profit of £2.9 million (2011: £4.2 million) while increasing investment in research and development to £3.5 million (2011: £3.2 million) and continuing to expense all research and development costs.

MASD has continued to invest in the Microgen Aptitude and Microgen Accounting Hub software and technology. The results of Microgen Aptitude performance tests at a third party test facility in 2012 demonstrated that this high performance Enterprise Application Platform achieved 7 billion transactions per hour performing in-memory processing and further tests, involving database to database processing, resulted in Microgen Aptitude achieving over 800 million transactions per hour. This exceptional performance, combined with the rich functionality provided in both Microgen Aptitude and Microgen Accounting Hub, confirms Microgen's leadership in delivering the high transaction-processing performance required in addressing the challenges associated with "Big Data" in high volume complex systems.

The Division also launched Version 4 of Microgen Aptitude and a new 3D Navigator module. This new module, together with the additional functionality within Version 4, further strengthens the product's market leading combination of functionality, business/IT collaboration and transaction-processing performance. To protect the Group's intellectual property Microgen continues to file patents related to the innovative enterprise technology associated with Microgen Aptitude. Patent applications have now been filed internationally for 13 separate inventions within Microgen Aptitude, the first of which was granted by the US Patent Office during 2012 with a further two being allowed for grant by the US patent office subsequent to the year end.

In response to the caution and budget constraints being demonstrated by organisations to large-scale investments in enterprise projects, MASD is modularising the Microgen Accounting Hub to provide targeted solutions to specific industry requirements within organisations. These highly functional software modules are capable of being extended to a full finance transformation solution while providing a lower entry-level commitment appropriate to the current economic climate. For example, as part of this strategy, a "Profitability" module has been developed providing a solution to address the increasing market need to improve cost allocations and profitability modelling, an area of demand MASD is seeing across a number of vertical sectors.

- **Financial Systems Division ("FSD")**

The Financial Systems Division has a well-established customer base with 74% (2011: 69%) of Divisional revenue being derived from its core financial systems software including software for the wealth management and banking sectors. Reflecting the market maturity of the Division, the recurring revenues account for 78% (2011: 78%) of the Divisional revenue, with 28% of the Division's revenue being generated by its top 5 clients (2011: 24%).

FSD reported revenue of £16.0 million (2011: £17.0 million which as previously reported benefitted from unusually strong consultancy demand and some one-off benefits). Core financial systems reported growth in revenue to £11.9 million (2011: £11.8 million) of which £9.5 million is recurring (2011: £9.6 million). As anticipated, non-core activities declined to £4.1 million (2011: £5.2 million) of which £2.9 million is recurring in nature (2011: £3.6 million). The Division remains highly profitable producing operating margins of 52% in 2012 (2011: 46%).

The FSD division continues to see growth opportunities in the wealth management sector endorsing the investment made in the Division's trust and fund software in recent years. In parallel, the Division continues to review the viability of a number of its smaller product offerings and non-core activities with a view to optimising profit contribution as these offerings approach end-of-life. At the same time, the Group's strong balance sheet affords the Division the capability to evaluate add-on acquisitions in financial back office processing to complement its current market offerings if such opportunities arise.

Operations Summary

The Group has a strong and established portfolio of products and solutions, combining proven domain and industry expertise with leading technical and functional capability. The benefits of scale are achieved through the use of shared services centres for support functions. This foundation has enabled the Group to report a resilient financial performance in 2012 despite a challenging market environment.

David Sherriff
Chief Executive Officer

22 February 2013

Revenue for the year ended 31 December 2012 was £32.3 million (2011: £38.8 million), with the higher margin annual software licences and other recurring revenue comprising 61% of overall revenue (2011 : 49%), producing an operating profit of £9.0 million (2011: £9.5 million). The Group reported a profit for the year attributable to equity shareholders of £6.9 million (2011: £7.3 million).

In accordance with IFRS, the Board has continued to determine that all internal research and development costs incurred in the year are expensed and therefore the Group has no capitalisation of development expenditure. The overall group expenditure on research, development and support activities in 2012 was £5.7 million (2011: £5.4 million) of which £3.5 million (2011: £3.2 million) was incurred by the Microgen Aptitude Solutions Division.

Despite the reduction in revenue, operating margins increased to 28% (2011: 24%) due to the Group's conservative operational approach. This has been achieved by the growth in the Group's higher margin annual software licences and other recurring revenues together with reductions in the use of contractors and associates, lower variable remuneration and reduced discretionary expenditure. Headcount at 31 December 2012 was 238 including contractors and associates (31 December 2011: 273).

Diluted earnings per share for the year ended 31 December 2012 was 8.3 pence (2011: 8.7 pence). The total tax charge of £2.2 million (2011: £2.3 million) represents 24% of the Group's profit before tax (2011: 24%). The Group's tax charge benefitted from the recognition of £0.2 million (2011: £0.3 million) tax losses in the year. The deferred tax asset in relation to taxable trading losses represents only £0.2 million (2011: £0.2 million) of the overall deferred tax asset of £1.0 million (2011: £1.3 million) with short term timing differences representing the principle component at £0.4 million (2011: £0.5 million).

The Group continues to have a strong balance sheet with net assets at 31 December 2012 of £64.7 million (2011: £60.0 million) including net cash at 31 December 2012 of £32.1 million (2011: £27.0 million). 97% of cash at the year end was held in the United Kingdom. Benefitting once again from excellent customer debt collections in the final quarter, the cash generated from operations in the year was £10.3 million (2011: £12.5 million) with cash conversion, measured by cash generated from operations as a percentage of operating profit, of 115% (2011: 132%).

Philip Wood
Group Finance Director

22 February 2013

Report of the Directors

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 2012.

Results and Dividends

The results for the year are set out in the financial statements and notes that appear on pages 30 to 71. As explained in the Chairman's Statement, the directors propose the payment of a final dividend of 2.2 pence per share, making a total of 3.3 pence per share for the year (2011: 3.3 pence in addition to a special dividend of 5.0 pence per share paid in December 2011). The Board has also announced a special dividend of 5.2 pence per share. The proposed final and special dividends will both be paid on 28 May 2013, subject to shareholder approval, to shareholders on the register on 26 April 2013.

The ordinary dividends paid in 2012 totalled £2.7 million (2011: £2.6 million in addition to the special dividend of £4.1 million paid in December 2011).

Principal Activities

The Company is a holding company, with the Group's principal activity being the provision of IT software, services and solutions to the business community primarily in the financial services, digital media and commercial sectors. The Group's services are provided through two operating businesses which are detailed within the Chief Executive Officer's Report.

Review of the Business and Key Performance Indicators

The information that fulfils the requirements of the Business Review, including the Group's Key Performance Indicators, can be found in the Chairman's Statement, the Chief Executive Officer's Report and the Group Finance Director's Report on pages 2 to 5 which are incorporated into this report by reference. The Key Performance Indicators for the Group include revenue, operating profit and recurring revenue. In addition the Board also monitors consultant utilisation and average daily fees rates achieved by its consultants and other performance measures as appropriate.

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. As detailed on page 14 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 8 and 9.

Directors' Responsibilities

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

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

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

The directors are responsible for the maintenance and integrity of the Company's website and the financial information included in the website. Information included on the website is accessible in the United Kingdom as well as many countries with differing legal requirements but only legislation in the United Kingdom governing the preparation and dissemination of financial statements applies to the Company.

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

- the Group financial statements, which have been prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the information contained in pages 2 to 5 of this Annual Report provides a fair, balanced and understandable review of the development and performance of the business and the position of the Group. A description of the principal risks and uncertainties of the Group is set out on pages 8 and 9.

Table detailing Principal Risks and Uncertainties

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

Table detailing Principal Risks and Uncertainties (continued)

Claims by others that the Group infringes on their intellectual property rights could be costly to defend and could harm the Group's business	The Group may be subject to claims by others that the Group's products or brands infringe on or misappropriate their intellectual property or other property rights. These claims, whether or not valid, could require the Group to spend significant sums in litigation, distract management attention from the business, pay damages, delay or cancel product shipments, rebrand or re-engineer the Group's products or acquire licences to third party intellectual property. In the event that the Group needs to acquire a third party licence, the Group may not be able to secure it on commercially reasonable terms, or at all.	The Group's legal team 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 being submitted where considered appropriate.
The Group's reputation as a quality professional service provider may be adversely affected by any failure to meet its contractual obligations, customer expectations or agreed services levels	The Group's ability to attract new customers or retain existing customers is largely dependent on its ability to provide reliable high quality products and services to them and to maintain a good reputation. Because many of the engagements of the Group involve projects that are critical to the business operations and information systems of clients, the failure or inability of the Group to meet a client's expectations could have an adverse effect on the client's operations and could result in damage to the reputation of the Group. Certain contracts may provide for a reduction in fees payable by the client if service levels fall below certain specified thresholds, thus potentially reducing or eliminating the profit margin on any particular contract. If the Group fails to meet its contractual obligations or perform to client expectations, it could be subject to legal liability or damage to its reputation and the client may ultimately be entitled to terminate the contract.	The Group employs highly skilled personnel and has business processes in place to endeavour to ensure that any lapse is quickly identified and addressed. In addition, any significant issues are reported to the executive directors and, if appropriate, the Board.
Potential future acquisitions by the Group may have unexpected material adverse consequences	The Group's business is competitive and its growth is dependent upon a number of factors including market growth and its ability to enhance existing products and introduce new products on a timely basis. One of the ways the Group addresses the need to develop new products is by considering acquisitions of complementary businesses and technologies. Acquisitions involve numerous risks which may have unexpected adverse material consequences.	Due diligence is performed when potential acquisitions are identified and all acquisitions require Board approval.
The Group's software products may contain undetected errors and have dependency upon integration with third party products	The Group's products involve sophisticated technology that perform critical functions to highly demanding standards. Software products as complex as those offered by the Group might contain undetected errors or failures. If flaws in design, production, assembly or testing of the Group's products (by the Group or the Group's suppliers) were to occur, the Group could experience a rate of failure in its products that would result in substantial repair, replacement or service costs and potential liability and damage to the Group's reputation. The Group will not be able to be certain that, despite testing by the Group and by current and prospective customers, flaws will not be found in products or product enhancements. Any flaws found may cause substantial harm to the Group's reputation and result in additional unplanned expenses to remedy any defects, and liability stemming therefrom, as well as a loss in revenue and profit. In addition, third party products and databases have been included in or integrated with the Group's products under licences granted to the Group or its customers. If any such licence was to expire without renewal or be otherwise terminated, the Group or the relevant customer would need to cease use of, and remove or disintegrate, the relevant third party product or database which could be costly, time-consuming and cause significant disruption to the Group's business. Any such removal or disintegration of third party products or databases would necessitate changes to, and/or the re-engineering of, the Group's products which could also be costly, time-consuming and cause significant disruption to the Group's product development strategies and otherwise adversely affect the Group's business. Even if such third party licences are not terminated, the Group's reliance on third party products or databases could limit and/or adversely affect its ability to control the future development of its own products.	The Group's Development Forum reviews all development activities including software quality and integration with third party products and databases. The Group's software testing processes are also well established.

Going Concern

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

Employment Policies

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

Environmental Policy

As a supplier of software solutions the Group's operations do not have a material impact on the environment. The Group has no manufacturing facilities and its premises exclusively comprise offices. Any obsolete office equipment and computers are resold or recycled to the extent practicable. The Group has recycling facilities in all of its offices and use of waste paper is minimised by promoting a paperless process and downloadable software products. However the Group recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to

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

Donations

The charitable donations made in the period by the Company and its subsidiaries total £250 (2011: £8,000).

Substantial Shareholdings

In accordance with the Disclosure and Transparency Rules of the Financial Services Authority, as at 22 February 2013, the Company had been advised of the following notifiable interests in its voting rights:

	Number of shares	% Issued Share Capital
Schroders plc*	15,176,770	18.60%
Aberforth Partners LLP**	12,210,177	14.97%
P F and C C M Barbour***	6,865,327	8.42%
M R Ratcliffe	5,294,524	6.49%
Invesco Limited	4,584,349	5.62%
Standard Life Investments Limited	4,247,513	5.21%
Highclere International Investors LLP	3,276,973	4.02%
L G Crisp and Mrs H Crisp	2,726,602	3.34%

* Included within Schroders plc's interest are 3,806,692 shares (4.67 per cent.) held by Mineworkers Pension Scheme, 2,788,605 shares (3.42 per cent.) held by British Coal Staff Superannuation Scheme and a further 2,400,000 shares (2.94 per cent.) for which it does not have access to the voting rights.

** Included within Aberforth Partners LLP's interest are 6,155,526 shares (7.55 per cent.) held by Aberforth Smaller Companies Trust plc; 1,607,900 shares (1.97 per cent) held by Aberforth Geared Income Trust LLP; 1,561,351 shares (1.91 per cent.) held by Aberforth UK Small Companies Fund and a further 2,885,400 shares (3.54 per cent.) for which it does not have access to the voting rights.

*** CCM Barbour holds 2,514,531 of the voting rights of these shares and PF Barbour holds 1,500,000 of the voting rights of these shares. Both CCM Barbour and PF Barbour are interested in 2,850,796 shares however neither have any voting rights in these shares.

The Takeovers Directive

The Company has one class of share capital, ordinary shares. All the shares rank pari passu. There are no special control rights in relation to the Company's shares.

Awards under the Microgen Value Enhancement and Realisation Bonus Scheme, as detailed on pages 25 to 27 of the Report of the Directors on Remuneration, would be payable, in cash and/or shares, following a change of control of Microgen provided that the base level valuations of one or more of the divisions have been exceeded. Additionally, under the Company's share option schemes, a change of control of the Company following a takeover bid would be considered a vesting event. This would allow the exercise of awards subject to the relevant performance conditions being satisfied. There are a small number of customer contracts which include a change of control clause. Two directors have agreements providing for compensation in the event of a change in control and these have been disclosed in the Report of the Directors on Remuneration. Three other senior managers have change of control agreements which increase the notice receivable by one individual from 3 to 6 months and the other two individuals from 6 to 12 months in the event of a change of control.

Repurchase of Own Shares

At the Annual General Meeting held on 24 April 2012 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 8,139,568 ordinary shares of 5p each. Such purchases could be made at no more than 5% above the middle market quotation in the London Stock Exchange daily official list on the five business days prior to the date of purchase, nor less than 5p each. 121,000 shares were purchased during the year under this authority at a price of 120 pence per share. 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.

Significant Contracts

There did not exist at any time during the period 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 71.

Directors

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

M R Ratcliffe
D J Sherriff
P B Wood
P M Bertram
V Murray
P Whiting (appointed 2 February 2012)
P Davies (resigned 23 April 2012)
R T L Kanter (resigned 23 April 2012)

Biographical details of the current directors are given on the inside front cover of this Annual Report. At the forthcoming Annual General Meeting Mr Ratcliffe and Mr Bertram, who retire by rotation, will stand for re-election.

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. On 20 September 2011 the Company executed a deed granting an indemnity for the benefit of current and future directors of the Company in respect of liabilities which may attach to them in their capacity as directors of the Company and committing to maintain directors' and officers' insurance cover. Qualifying third party indemnity provisions, as defined by section 234 of the Companies Act 2006 as applicable, have been in force during the period 24 April 2006 to 22 February 2013 under the original deed poll dated 24 April 2006 and the deed poll dated 20 September 2011 and continue in force for the benefit of the directors.

Treasury and Foreign Exchange

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

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

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 43 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 £91,000 at 31 December 2012 (2011: £21,000).

At 31 December 2012, for the Group the average number of days of annual purchases represented by year end creditors was 21 days (31 December 2011: 9 days).

Auditors and Disclosure of Information to Auditors

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

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

Corporate Governance

The Group's statement on corporate governance is included in the corporate governance report on pages 14 to 19, and is incorporated into this report of directors by cross reference.

Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 am on 13 May 2013 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

A O'Neill
Company Secretary

22 February 2013

Corporate Governance
Statement

Statement of Compliance

The Group has applied the main principles set out in the UK Corporate Governance Code ("Code"). A full statement of compliance with the Code's main principles of the Code of Best Practice is on pages 18 to 19.

The Company has complied with the Code throughout the year ended 31 December 2012, other than the limited exceptions stated as follows:

B.1.1. Mr Davies was an employee of the Group in 1999 and, together with Mr Kanter, had served on the Board for more than 9 years from the date of their first election. As detailed within the Report of the Directors, Mr Davies and Mr Kanter resigned from the Board on 23 April 2012.

The Board considers that all of the non-executive directors are independent in character and judgement from the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of the non-executive directors have extensive business experience.

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 receives detailed presentations from senior managers at the scheduled monthly Board meetings.

The roles and responsibilities of the Chairman and Chief Executive Officer are separate. The Chairman is primarily responsible for management of the Board, corporate strategy and development and ensuring effective communication with shareholders. The Chief Executive Officer is responsible for managing the Group's operating strategy and businesses.

Non-executive directors are appointed for specified terms, up to a maximum of three years, and reappointment is not automatic. There is a formal selection process to appoint non-executive directors and a separate Nomination Committee was formed in 2001. Mr Bertram is the senior independent non-executive director.

All directors have access to the advice and services of the Company Secretary or 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 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

Each of Mr Bertram, Ms Murray and Mr Whiting serve on the Nomination, Remuneration and Audit Committees and Mr Ratcliffe serves on the Nomination Committee. 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

On 1 January 2012 Mr Ratcliffe was appointed as chairman of the Nomination Committee which also comprises Mr Bertram, Ms Murray and Mr Whiting. The Nomination Committee meets at least once a year and recommends to the Board candidates for appointment as Directors and reappointment.

The Board and the Board Committees recognise the importance of promoting all aspects of diversity, including gender, throughout the Group. When making an appointment to the Board, candidates are chosen against criteria, specified by the Nomination Committee in 2011, such as balance of skills, business experience, independence, qualifications, knowledge, diversity and other factors relevant to the Board operating effectively. Successful candidates are chosen on merit against these criteria, regardless of race, gender or religious beliefs. Mr Whiting was appointed to the Board in February 2012 and complements the Board's skill set and experience.

Remuneration Committee

On 1 January 2012 Ms Murray was appointed as chair of the Remuneration Committee and the Committee also comprises Mr Bertram and Mr Whiting. The Report of the Directors on Remuneration appears on pages 20 to 27.

Audit Committee

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

The Audit Committee assesses the performance of the external auditors on an annual basis. The Audit Committee then recommends the appointment, reappointment or removal of the Company's external auditors to the Board.

The Chairman, Chief Executive Officer and Group Finance Director attend the Audit Committee meetings by invitation, however, 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 Board has reviewed the nature of the work and level of fees for non-audit services and considers that this has not affected the auditors' objectivity and independence. The expenditure on non-audit services is set out on page 50.

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.

Board Attendance

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

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings held in 2012	11	4	6	1
M R Ratcliffe	11	4*	6*	1
D J Sherriff	11	4*	6*	1*
P B Wood	11	4*	6*	1*
P M Bertram	11	4	5	1
V Murray	11	4	6	1
P Whiting (appointed 2 February 2012)	10	4	5	–
P Davies (resigned 23 April 2012)	2	–	2	1
R T L Kanter (resigned 23 April 2012)	3	1	3	1

* attendance by invitation.

The above table details attendance at scheduled meetings. In addition 10 ad hoc meetings were held, of these meetings, 7 meetings were held by a sub-committee relating to the exercise of share options.

Operating Board

The Operating Board is chaired by the Chief Executive Officer and also comprises the Chairman, Group Finance Director and other senior managers within the Group. The Operating Board normally meets on a monthly basis to discuss policy and operational issues. Those issues outside the delegated authority levels set by the plc Board are referred to the plc Board for its decision. All Non-Executive Directors are invited to attend Operating Board meetings.

Relations with Shareholders

In order to maintain dialogue with institutional shareholders the Chairman, Chief Executive Officer and Group Finance Director meet with them following interim and final results announcements, or as appropriate, with other directors available to meet institutional shareholders on request. Where practicable the Annual Report is sent to shareholders at least 20 working days before the Annual General Meeting and each issue for consideration at the Annual General Meeting is proposed as a separate resolution. All continuing directors generally attend the Annual General Meeting.

Social, Ethical and Environmental Risks

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

The Board considers that it has received adequate information to enable it to assess any significant risks to the Company's short 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 highly 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 8 and 9. The Group is committed to mitigating risks arising wherever possible and accepts that internal controls, rigorously applied and monitored, are an essential tool in achieving this objective.

The key elements of Group internal control, which have been effective during 2012 and up to the date of approval of these financial statements, are set out below:

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

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

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

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

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

On behalf of the Board, the Audit Committee has reviewed the operation and effectiveness of this framework of internal control for the year ended 31 December 2012, and up to the date of approval of the annual report.

Internal Audit

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

Corporate Governance

Statement

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE		
	Code of Best Practice – Principles	**Microgen Compliance Statement**
A	**LEADERSHIP**	
1	**The Role of the Board** Every company should be headed by an effective board, which is collectively responsible for the success of the company.	The directors' responsibilities are outlined in the Report of the Directors. The Board meets regularly on a formal basis plus 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 roles and responsibilities of the Chairman and Chief Executive Officer are separate. The Chairman is primarily responsible for corporate strategy and development and ensuring effective communication with shareholders. The Chief Executive Officer is responsible for managing the Group's operating strategy and businesses.
3	**The Chairman** The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. He promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. In addition, he ensures that the directors receive accurate, timely and clear information.
4	**Non-Executive Directors** As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	The Board appoints one of the independent non-executive directors to be the senior independent non-executive director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors if necessary. The senior independent non-executive director is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Group Finance Director fails to resolve or for which such contact is inappropriate. The Chairman holds meetings with the non-executive directors without the executives being present. Led by the senior independent non-executive director, the non-executive directors meet without the Chairman at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. If the directors have concerns which cannot be resolved about the running of the company or a proposed action, it is Company policy that their concerns must be recorded in the Board minutes. On their resignation, a non-executive director has to provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.
B	**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.	The Board consists of the Chairman, Chief Executive Officer and Group Finance Director plus at least two non-executive directors. All of the non-executive directors (including those detailed in the Statement of Compliance) are considered by the Board to be independent of the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.
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 together with the Chairman, is responsible for identifying and nominating candidates to fill Board vacancies.
3	**Commitment** All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	The Chairman's other significant commitments are disclosed in the Annual Report. Any changes to such commitments are reported to the Board as they arise and their impact explained in the next Annual Report. 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. A full time executive director of Microgen will not be given permission by the Board to take on more than one directorship in a company nor chairman of such a company.
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.
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.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (continued)		
	Code of Best Practice - Principles	**Microgen Compliance Statement**
B	**EFFECTIVENESS**	
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 Chief Executive Officer and Group Finance Director receive an annual performance appraisal as part of the Senior 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 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 balanced and understandable assessment of the company's position and prospects.	The Board considers it is in compliance with this requirement.
2	**Risk Management and Internal Control** The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain a sound risk management and internal control systems.	The Company operates a detailed internal control process which is reviewed at least on an annual basis by the Audit Committee and endorsed by the Board. Further information is provided in the Corporate Governance Statement.
3	**Audit Committee and Auditors** The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	The Audit Committee consists of all non-executive directors and meets at least three times a year. The Chairman, Chief Executive Officer and Group Finance Director are invited to attend but the Audit Committee meets at least annually with the company's auditors without the other directors present. The Board ensures that at least one member of the audit committee has recent and relevant financial experience.
D	**REMUNERATION**	
1	**The Level and Make-up of Remuneration** Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.	The Chief Executive Officer and Group Finance Director's remuneration consist of basic salary and a variable annual bonus. Basic salaries are reviewed annually in the light of individual performance and market comparisons for similar jobs. Annual bonuses may be paid, at the sole discretion of the Remuneration Committee, at a target level of up to 50% with an overall cap of 100% of basic salary. The annual bonus payment is determined on the basis of individual and corporate performance. The Chairman does not participate in the annual bonus scheme. In addition there are long term incentive schemes in place as detailed in the Report of the Directors on Remuneration. These long term incentive schemes include the Microgen Value Enhancement and Realisation Bonus Scheme, Performance Share Plan and Share Option Plans. As at 31 December 2012 neither the Chief Executive Officer nor Group Finance Director hold non-executive positions with other companies for which they receive remuneration. Remuneration for non-executive directors does not include share options or other performance related elements. All options awarded to the Chairman have received shareholder approval on a specific resolution.
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. The Chairman, Chief Executive Officer and Group Finance Director may be invited to attend the Committee's meetings.
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, Chief Executive Officer and Group Finance Director meet on a regular basis with the Company's major shareholders. Non-executive directors are available to meet institutional shareholders if requested.
2	**Constructive Use of the Annual General Meeting** The board should use the Annual General Meeting 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. All continuing directors make themselves available at the Annual General Meeting to respond to any questions raised by the investors in attendance.

Report of the Directors on Remuneration

Remuneration Committee

This report by the Remuneration Committee has been approved by the Board of Directors for submission to shareholders for their approval at the forthcoming Annual General Meeting.

Membership

The membership of the Remuneration Committee comprises Ms Murray, Mr Bertram and Mr Whiting and is chaired by Ms Murray. Mr Whiting joined the Remuneration Committee with effect from 2 February 2012. Mr Davies and Mr Kanter served on the committee until their resignation from the Committee on 23 April 2012.

Policy Statement

The Remuneration Committee sets the overall policy on remuneration and other terms of employment for the Chairman, Executive Directors and for the senior management. The Committee determines remuneration packages by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. The Committee also oversees the operation of the Company's share option and other incentive schemes.

It is the Committee's intention to continue to seek to align the interests of the directors and senior management with those of the shareholders.

The Group operates a policy for directors and senior management designed to ensure it attracts and retains the management skills required to operate and develop the Group's businesses.

In fulfilling its role the Remuneration Committee seeks professional advice when considered appropriate to do so. The services of Kepler Associates, an independent adviser on executive remuneration, were made available to the Committee during the year. This included providing assistance with preparation of the Report of the Directors on Remuneration. Kepler Associates is a signatory to the Remuneration Consultants Group Code of Conduct. Kepler Associates has no other connection with the Company.

Components of Remuneration

Base Salary

Base salaries are reviewed on an annual basis by the Remuneration Committee or when an individual changes roles or responsibilities.

Senior Management Bonus Scheme

The Group operates a Senior Management Bonus Scheme, which is determined by the Remuneration Committee on an annual basis by reference to Group, Divisional and personal performance during the financial period. When assessing performance the Remuneration Committee considers revenue and operating profit results compared to targets in addition to other indicators of performance including customer retention, recurring revenue growth, cash flow management and achievement of other objectives.

Annual bonus targets for the participants for a financial period are set at a level up to 50%, with an overall cap of 100% of basic salary. The Chairman does not participate in the Senior Management Bonus Scheme and any bonus paid to him is separately determined by the Remuneration Committee. For bonuses relating to the year ending 31 December 2012 and subsequent periods, bonuses will only be paid following the approval by shareholders to receive and to adopt the Company's financial statements for the year which the bonus relates. The Remuneration Committee has also introduced 'clawback' provisions for bonuses relating to the year ending 31 December 2011 and subsequent periods. These provisions entitle the Remuneration Committee, at its discretion, to seek repayment from Mr Sherriff and Mr Wood, together with a number of other participants, of up to 25% of a prior net bonus payment for a period of 18 months from the end of the period to which the bonus relates.

Performance Share Plan

Under the Performance Share Plan ("PSP") introduced in 2006 the Remuneration Committee is allowed to grant conditional allocations of par value options to key executives with a maximum value of (normally) 100% of base salary per annum. Awards granted under the PSP will normally only vest after 3 years provided the participant is still employed in the Group and that demanding performance conditions have first been achieved.

Share Option Plans

Option grants are made at the discretion of the Remuneration Committee to senior executives and managers across the Group, as well as other staff to recognise significant achievement.

Exercise of Executive Share Options is not permitted until three years after the date of grant and only if specific performance criteria, aligning the interests of executives and management with those of shareholders, have been met.

A Company Share Option Plan ("CSOP"), approved by HMRC, was introduced in 2006. Grants under this CSOP are subject to similar performance conditions as the existing Executive Option Plans.

The Microgen Value Enhancement and Realisation Bonus Scheme

A long term incentive scheme was introduced on 14 October 2008 to incentivise the Group's senior management to enhance and to realise shareholder value. The scheme received approval from shareholders on 19 November 2008. In 2010 the Board approved two amendments to the scheme with changes considered by the Remuneration Committee to be beneficial to shareholders. Shareholders approved two further amendments at the 2012 Annual General Meeting which are also considered by the Remuneration Committee to be beneficial to shareholders.

Service Contracts

No employee or director has a service contract which incorporates more than one year's notice of termination from the Company.

Details of the directors' service contracts and/or terms of appointment are shown in the table below:

Director	**Initial agreement date**	**Expiry date of current agreement**	**Notice to be given by employer**	**Notice to be given by individual**
M R Ratcliffe	30 July 1998	Indefinite	6 months	6 months
D J Sherriff	4 May 1999	Indefinite	6 months	12 months
P B Wood	21 October 2006	Indefinite	6 months	12 months
P M Bertram	3 October 2006	14 April 2015	3 months	3 months
V Murray	1 September 2011	31 August 2014	3 months	3 months
P Whiting	2 February 2012	1 February 2015	3 months	3 months

Mr Sherriff and Mr Wood are entitled to receive contractual bonus payments ("Contractual Bonus"), in addition to both the Microgen Value Enhancement and Realisation Bonus Scheme ("VERBS") and the Senior Management Bonus Scheme, in the event of any change of control of Microgen up to a maximum of £100,000. Such a change of control will amend the notice provisions of their contracts so that the notice period to be given by the employer to either Mr Sherriff or Mr Wood is increased from six to twelve months. In December 2012 Mr Sherriff and Mr Wood agreed an amendment to their service contracts which reduces their Contractual Bonus payable on a change of control to nil if the bonus paid or payable under VERBS is greater than £100,000. If Mr Sherriff's or Mr Wood's bonus paid or payable under VERBS is less than £100,000 then their maximum Contractual Bonus is adjusted to a value such that the total bonus paid or payable under VERBS, together with the maximum Contractual Bonus, does not exceed £100,000.

The unexpired term of the service contracts or period of appointment of those directors who seek re-election at the Annual General Meeting are detailed above.

Pension Schemes and Other Benefits

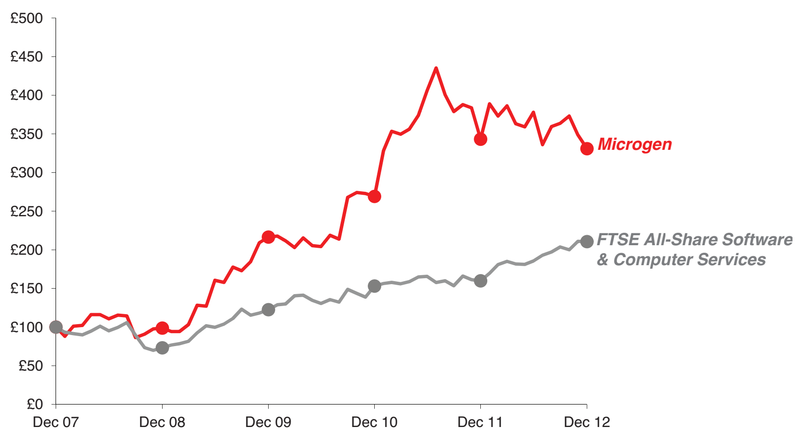
The directors, management and staff (excluding the Chairman and the non-executive directors) are all eligible to participate on the same basis in the Group Personal Pension Scheme with directors permitted to opt for contributions on their behalf to be paid into self-invested personal pension schemes. The Group Personal Pension Scheme is a defined contribution scheme under which the Group matches employee contributions on a 2 (employer): 1 (employee) basis with employer contributions not exceeding 6% of basic earnings (excluding variable rewards). The Group currently contributes 6% of basic salary on behalf of Mr Sherriff (reduced from 7% with effect from 1 April 2011) and 6% on behalf of Mr Wood. The contributions for Mr Wood are paid into a self-invested personal pension scheme. The Group also offers income protection in the event of long term ill health, private healthcare and death in service benefits to all employees in the United Kingdom including the directors (but excluding the Chairman and the non-executive directors). Mr Sherriff and Mr Wood also receive car fuel benefits.

Performance Graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Software and Computer Services Index for the five years ended 31 December 2012 measured by total shareholder return. The Remuneration Committee consider that the FTSE All Share Software and Computer Services Index is the most appropriate comparison given the similarities between the Company and the companies forming this index.

The total shareholder return performance for the Company includes the impact of the dividends paid to its shareholders across the period; however, it does not reflect either the £8.0m or £6.2m returned to shareholders via Tender Offer in 2008 and 2010 respectively.

In determining the senior management compensation, the Remuneration Committee takes into account the relative operational performance of Microgen compared with that of companies of similar size in the same sector.



Directors' Remuneration

The remuneration of all directors who served during the period was as follows:

	2012 £	2011 £
Emoluments	756,031	938,045
Defined contribution pension contributions	22,200	22,058
	778,231	960,103

Directors	Basic salary/fees £	Variable reward £	Benefits in kind £	Pension £	2012 total £	2011 total £
M R Ratcliffe	205,000	–	–	–	205,000	224,798
D J Sherriff	225,000	–	5,158	12,600	242,758	344,924
P B Wood	174,700	–	2,655	9,600	186,955	249,548
R T L Kanter *	11,669	–	–	–	11,669	42,000
P Davies *	11,669	–	–	–	11,669	42,000
P M Bertram	44,500	–	–	–	44,500	44,500
V Murray	42,000	–	–	–	42,000	12,333
P Whiting **	33,680	–	–	–	33,680	–
	748,218	–	7,813	22,200	778,231	960,103

Total benefits in kind of £7,813 (2011: £9,221) include private health care and fuel benefits. No director waived any emoluments.

* Mr Davies and Mr Kanter resigned from the Board with effect from 23 April 2012
** Mr Whiting was appointed to the Board with effect from 2 February 2012

Directors' Interests

The interest of the current directors as at 31 December 2012 and at 31 December 2011 in the share capital of the Company are as follows:

	Ordinary shares of 5p	
Current Directors	31 Dec 2012	31 Dec 2011
M R Ratcliffe	5,294,524	5,294,524
D J Sherriff	189,000	189,000
P B Wood	60,000	60,000
P M Bertram	46,022	46,022
V Murray	2,000	–
P Whiting	24,000	–
	5,615,546	5,589,546

No changes to the directors' shareholdings or share options took place between 1 January 2013 and the date of this report.

Related party transactions are disclosed on page 71.

Directors' Interests (continued)

Performance Share Plan ("PSP")

	Options over ordinary shares of 5p			
	31 Dec 2011	Exercised	Lapsed	31 Dec 2012
D J Sherriff	543,381	–	–	543,381
P B Wood	209,180	–	–	209,180

All of Mr Sherriff's and Mr Wood's PSP options held at 31 December 2012 have vested and are capable of being exercised. The performance conditions which applied to the above PSP options are structured so that 50% of an award is subjected to an adjusted earnings per share target and 50% is subjected to a total shareholder return target. No PSP options have been granted to either Mr Sherriff or Mr Wood since the introduction of the Microgen Value Enhancement and Realisation Bonus Scheme on 14 October 2008.

PSP options by option price, date of grant, exercise date and expiry date are:

Exercise price	Date of grant	Earliest exercise date or dates of exercise/lapse	Expiry date	D J Sherriff	P B Wood
5.0p	24 May 06	24 May 09	24 May 16	397,991	–
5.0p	05 Mar 07	05 Mar 10	05 Mar 17	–	93,340
5.0p	06 Aug 07	06 Aug 10	06 Aug 17	93,340	70,005
5.0p	02 Dec 08	02 Dec 11	02 Dec 18	52,050	45,835
As at 31 December 2012				543,381	209,180

Mr Sherriff is also a recipient of share options detailed in the section 'Share Options' below.

Share Options

	Options over ordinary shares of 5p			
	31 Dec 2011	Exercised	Lapsed	31 Dec 2012
M R Ratcliffe	1,000,000	–	–	1,000,000
D J Sherriff	225,000	–	–	225,000

The Company's Register of Directors' Interests held at the registered office contains full details of directors' shareholdings and options to subscribe.

Share options by option price, date of grant, exercise date and expiry date are:

Exercise price	Date of grant	Earliest exercise date or dates of exercise/lapse	Expiry date	M R Ratcliffe	D J Sherriff
24.5p	24 Feb 03	24 Feb 06	24 Feb 13	–	50,000
42.5p	07 Nov 03	07 Nov 06	07 Nov 13	–	75,000
70.5p	22 Sep 05	22 Sep 08	22 Sep 15	–	100,000
52.33p	02 May 08	02 May 11	02 May 18	1,000,000	–
As at 31 December 2012				1,000,000	225,000

All options were granted at no cost to the directors and can be exercised once performance conditions are met and the initial 3 year vesting period has elapsed. Mr Bertram, Mr Davies, Mr Kanter, Ms Murray and Mr Whiting do not participate in the Company share schemes. All options granted to Mr Ratcliffe received shareholder approval. No share options have been issued to directors since the introduction of the Microgen Value Enhancement and Realisation Bonus Scheme on 14 October 2008.

Share Options (continued)

There are a number of different performance criteria including requirements for a specified minimum share price being reached during the performance period and earnings per share related criteria. As at 31 December 2012 all of the performance criteria in respect of Mr Ratcliffe's and Mr Sherriff's share options have been satisfied.

The closing mid-market price of the Company's shares at 31 December 2012 was 121.5 pence and the range during the year was 119.5 pence to 163.5 pence.

The Microgen Value Enhancement and Realisation Bonus Scheme ("VERBS")

The Microgen Value Enhancement and Realisation Bonus Scheme was introduced in 2008 to incentivise management to enhance and ultimately to realise shareholder value. VERBS received approval from shareholders on 19 November 2008.

Since the details of VERBS were initially announced on 14 October 2008, the Group's market capitalisation of £37.0 million has increased by £62.1 million to £99.1 million as at 31 December 2012. Upon payment of the proposed final and special dividends on 28 May 2013, the Group will have returned 100% of its October 2008 market capitalisation to shareholders through ordinary dividends, special dividends, share buy-backs and tender offers.

VERBS is structured to incentivise management to enhance and ultimately realise shareholder value. A cash payment and/or share award will be available under VERBS by reference to the absolute value enhancement above a base level valuation of each Division.

The aggregate base level valuations of the Group's Divisions (including the Billing Services Division disposed of in November 2009) were originally set at a level equivalent to an aggregate base level valuation in excess of 70 pence per share which was 95% higher than the closing mid-market share price of 36 pence on the day prior to the announcement of VERBS. The Group has not disclosed the individual base level valuations of the Group's Divisions as such information would be to the commercial detriment of the Group and its shareholders.

Each of the Group's two continuing Divisions are independently incentivised with not more than 25% of the value enhancement above the Divisional base level valuation being allocated to employees at realisation. No awards are payable under VERBS unless and until the Group has realised the full base level value of a Division through either its full or partial disposal. Under no circumstances will awards be payable if the base value of a Division has not been realised in full. Awards are also payable following a change of control of Microgen provided that the base level valuations of one or more Divisions have been exceeded. Participants are awarded a percentage of the realised gain of a Division.

The Microgen Value Enhancement and Realisation Bonus Scheme ("VERBS") (continued)

The following table details the participation of the directors together with the maximum aggregate of other employees' participation and the maximum participation of all directors and employees in the realised gain of each Division:–

	Microgen Aptitude Solutions Division	Financial Systems Division
M R Ratcliffe	5.0%	5.0%
D J Sherriff	5.0%	5.0%
P B Wood	1.5%	2.0%
Maximum for all other participants	13.5%	13.0%
Maximum participation	**25.0%***	**25.0%***

* As detailed below, pursuant to amendment 4, maximum participation reduces from 25% to 20% for those gains arising above Divisional valuations in aggregate for the Group's current two Divisions in excess of £82.8 million (excluding the Group's cash and freehold property). This is equivalent to a valuation of 146 pence per share as at 31 December 2012 including the Group's cash and freehold property held at that date.

Completion of the disposal of the Billing Services Division on 30 November 2009 did not result in a payment to VERBS' participants because the consideration was below the base level valuation for that Division. In order to protect shareholder interests by maintaining the aggregate base level valuation, the Remuneration Committee of the Board determined to allocate the shortfall associated with the disposal to the businesses of the continuing group, thereby increasing the base level valuations of the Microgen Aptitude Solutions Division and the Financial Systems Division.

Since the introduction of VERBS the following amendments have been made to the scheme:-

1. Commencing on 1 January 2009, an annual net cost of capital of 15% will be applied to the base level valuation of the Microgen Aptitude Solutions Division and cash generated from operating profits by the Division will not reduce the base level valuation of the division;

2. Cash generated from operating profits by the Financial Systems Division will not reduce the base level valuation of the Division below 50% of the base level valuation originally set for the Division by the Remuneration Committee when the scheme was first announced on 14 October 2008. Disposal of part of the Division can lower the base level valuation of the Division below the figure set above as provided for within the VERBS rules;

3. The Remuneration Committee is provided with discretion to settle awards under VERBS in either cash or shares (or any combination thereof) following a realisation event. The proposed inclusion of shares as a means to settle awards is considered to provide the Group with greater flexibility when considering future corporate activity and returns of cash to shareholders; and

4. Directors / Employees' maximum participation will be at the lower rate of 20% for those gains arising above Divisional valuations in aggregate for the Group's current two Divisions in excess of £82.8 million (excluding the Group's cash and freehold property). This is equivalent to a valuation of 146 pence per share as at 31 December 2012 including the Group's cash and freehold property held at that date.

Amendments 1 and 2 above were approved by the Board In 2010. Amendments 3 and 4 were approved by shareholders at the 2012 Annual General Meeting. All amendments are considered by the Remuneration Committee to be beneficial to shareholders.

The Microgen Value Enhancement and Realisation Bonus Scheme ("VERBS") (continued)

Illustration of potential award under VERBS

At 31 December 2012 the closing mid-market share price was 121.5 pence representing a total shareholder return of 310% since the day prior to the announcement of the scheme on 13 October 2008 at which point the closing mid-market share price was 36 pence. The market capitalisation of the Group has increased from £37.0 million on 13 October 2008 to £99.1 million on 31 December 2012. In addition, upon payment of the proposed final and special dividends on 28 May 2013, the Group will have returned 100% of its October 2008 market capitalisation to shareholders through ordinary dividends, special dividends, share buy-backs and tender offers. If a change of control of Microgen plc had completed at 31 December 2012 at the closing mid-market share price on that date the maximum potential award would have been approximately £8.0 million. In determining the maximum potential award the Remuneration Committee has allocated the consideration to each of the two Divisions on a fair and equitable basis. The Group has not disclosed the valuations of the Group's Divisions used in this illustration as such information would be to the commercial detriment of the Group and its shareholders.

Information Subject to Audit

The sections of the Report of the Directors on Remuneration that are subject to audit by PricewaterhouseCoopers LLP are those headed "Directors' Remuneration", "Performance Share Plan" and "Share Options". The remaining sections are unaudited.

Resolution

A resolution to shareholders to accept the report of the Remuneration Committee will be put forward at the Annual General Meeting.

By Order of the Board

V Murray OBE
Remuneration Committee Chair

22 February 2013

Independent Auditors' Report

Independent Auditors' Report to the Members of Microgen plc

We have audited the financial statements of Microgen plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Balance Sheets, Consolidated and Company Statements of Changes in Shareholders' Equity, Statements of Cash Flow, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 6 and 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2012 Microgen plc annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report of the Directors on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 14 to 19 and at www.microgen.com with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Report of the Directors on Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 9, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Roger de Peyrecave (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 February 2013

Consolidated
Income Statement *for the year ended 31 December 2012*

	Note	Year ended 31 Dec 2012 Before intangible amortisation	Intangible amortisation	Total	Year ended 31 Dec 2011 Before intangible amortisation	Intangible amortisation	Total
		£000	£000	£000	£000	£000	£000
Revenue	1	32,318	–	**32,318**	38,776	–	38,776
Operating costs	1, 2	(23,187)	(118)	**(23,305)**	(29,177)	(117)	(29,294)
Operating profit	2	9,131	(118)	**9,013**	9,599	(117)	9,482
Finance income	4	174	–	**174**	258	–	258
Finance costs	4	–	–	**–**	(142)	–	(142)
		174	–	**174**	116	–	116
Profit before income tax		9,305	(118)	**9,187**	9,715	(117)	9,598
Income tax expense	5			**(2,238)**			(2,348)
Profit for the year				**6,949**			7,250
Earnings per share							
Basic	6			**8.5p**			8.9p
Diluted	6			**8.3p**			8.7p

The accounting policies and notes on pages 36 to 71 are an integral part of these consolidated financial statements.

Consolidated Statement
Of Comprehensive Income *for the year ended 31 December 2012*

	Note	Group Year ended 31 Dec 2012 £000	Group Year ended 31 Dec 2011 £000
Profit for the year		**6,949**	7,250
Other comprehensive income			
Cash flow hedges, net of tax	21	**409**	(367)
Currency translation difference		**80**	(142)
Other comprehensive income for the year, net of tax		**489**	(509)
Total comprehensive income for the year		**7,438**	6,741

The accounting policies and notes on pages 36 to 71 are an integral part of these consolidated financial statements.

Balance
Sheets *at 31 December 2012*

	Note	Group As at 31 Dec 2012 £000	Group As at 31 Dec 2011 £000	Company As at 31 Dec 2012 £000	Company As at 31 Dec 2011 £000
ASSETS					
Non-current assets					
Property, plant and equipment	10	**5,391**	5,521	**–**	–
Goodwill	8	**41,774**	41,774	**–**	–
Other intangible assets	9	**–**	118	**–**	–
Investments in subsidiaries	11	**–**	–	**40,752**	40,691
Deferred income tax assets	12	**1,041**	1,324	**–**	–
		48,206	48,737	**40,752**	40,691
Current assets					
Trade and other receivables	13	**3,163**	5,611	**8,722**	2,011
Financial assets – derivative financial instruments	17	**69**	–	**–**	–
Cash and cash equivalents	14	**32,134**	26,971	**22,592**	23,657
		35,366	32,582	**31,314**	25,668
Total assets		**83,572**	81,319	**72,066**	66,359
LIABILITIES					
Current liabilities					
Financial liabilities					
– derivative financial instruments	17	**(15)**	(353)	**–**	–
Trade and other payables	15	**(17,845)**	(19,981)	**(20,733)**	(12,410)
Current income tax liabilities		**(742)**	(768)	**(10)**	(52)
Provisions for other liabilities and charges	16	**(42)**	(107)	**–**	–
		(18,644)	(21,209)	**(20,743)**	(12,462)
Net current assets		**16,722**	11,373	**10,571**	13,206
Non-current liabilities					
Provisions for other liabilities and charges	16	**(256)**	(135)	**–**	–
		(256)	(135)	**–**	–
NET ASSETS		**64,672**	59,975	**51,323**	53,897
SHAREHOLDERS' EQUITY					
Share capital	18	**4,078**	4,069	**4,078**	4,069
Share premium account	19	**11,885**	11,842	**11,885**	11,842
Capital redemption reserve	20	**1,152**	1,146	**1,152**	1,146
Other reserves	21	**37,028**	36,619	**20,177**	20,177
Retained earnings	22	**10,529**	6,299	**14,031**	16,663
TOTAL EQUITY		**64,672**	59,975	**51,323**	53,897

The accounting policies and notes on pages 36 to 71 are an integral part of these consolidated financial statements.

The financial statements on pages 30 to 71 were authorised for issue by the Board of Directors on 22 February 2013 and were signed on its behalf by:

M R Ratcliffe
Director

P B Wood
Director

Consolidated Statement

Of Changes in Shareholders' Equity

for the year ended 31 December 2012

	Note	Share capital £000	Share premium £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	Total equity £000
		Attributable to equity holders of the company					
Group							
Balance at 1 January 2011		4,041	11,531	5,354	1,146	37,066	**59,138**
Profit for the year		–	–	7,250	–	–	**7,250**
Cash flow hedges							
– net fair value losses in the year	21	–	–	–	–	(367)	**(367)**
Exchange rate adjustments	22	–	–	(142)	–	–	**(142)**
Total comprehensive income for the year		–	–	7,108	–	(367)	**6,741**
Shares issued under share option schemes	18-22	28	311	80	–	(80)	**339**
Share options – value of employee service	22	–	–	115	–	–	**115**
Deferred tax on financial instruments	22	–	–	93	–	–	**93**
Deferred tax on share options	22	–	–	56	–	–	**56**
Corporation tax on share options	22	–	–	82	–	–	**82**
Share options issued from Microgen Employee Share Participation Scheme Trust	22	–	–	56	–	–	**56**
Dividends to equity holders of the company	7	–	–	(6,645)	–	–	**(6,645)**
Total Contributions by and distributions to owners of the company recognised directly in equity		28	311	(6,163)	–	(80)	**(5,904)**
Balance at 31 December 2011		4,069	11,842	6,299	1,146	36,619	**59,975**
Profit for the year		–	–	6,949	–	–	**6,949**
Cash flow hedges							
– net fair value gains in the year	21	–	–	–	–	409	**409**
Exchange rate adjustments	22	–	–	80	–	–	**80**
Total comprehensive income for the year		–	–	7,029	–	409	**7,438**
Shares issued under share option schemes	18-22	15	43	–	–	–	**58**
Share options – value of employee service	22	–	–	61	–	–	**61**
Own shares purchased and cancelled	18-22	(6)	–	(146)	6	–	**(146)**
Deferred tax on financial instruments	22	–	–	(89)	–	–	**(89)**
Deferred tax on share options	22	–	–	25	–	–	**25**
Corporation tax on share options	22	–	–	41	–	–	**41**
Dividends to equity holders of the company	7	–	–	(2,691)	–	–	**(2,691)**
Total Contributions by and distributions to owners of the company recognised directly in equity		9	43	(2,799)	6	–	**(2,741)**
Balance at 31 December 2012		**4,078**	**11,885**	**10,529**	**1,152**	**37,028**	**64,672**

The accounting policies and notes on pages 36 to 71 are an integral part of these consolidated financial statements.

Company Statement

Of Changes in Shareholders' Equity

for the year ended 31 December 2012

	Note	Share capital	Share premium	Retained earnings	Capital redemption reserve	Other reserves	Total equity
		Attributable to equity holders of the company					
		£000	£000	£000	£000	£000	£000
Company							
Balance at 1 January 2011		4,041	11,531	23,013	1,146	20,257	**59,988**
Comprehensive income							
Profit for the year		–	–	44	–	–	**44**
Total comprehensive income for the year		–	–	44	–	–	**44**
Shares issued under share option schemes	18-22	28	311	80	–	(80)	**339**
Share options – value of employee service	22	–	–	115	–	–	**115**
Share options issued from Microgen Employee Share Participation Scheme Trust	22	–	–	56	–	–	**56**
Dividends to equity holders of the company	7	–	–	(6,645)	–	–	**(6,645)**
Total Contributions by and distributions to owners of the company recognised directly in equity		28	311	(6,394)	–	(80)	**(6,135)**
Balance at 31 December 2011		4,069	11,842	16,663	1,146	20,177	**53,897**
Comprehensive income							
Profit for the year		–	–	144	–	–	**144**
Total comprehensive income for the year		–	–	144	–	–	**144**
Shares issued under share option schemes	18-22	15	43	–	–	–	**58**
Own shares purchased and cancelled	18-22	(6)	–	(146)	6	–	**(146)**
Share options – value of employee service	22	–	–	61	–	–	**61**
Dividends to equity holders of the company	7	–	–	(2,691)	–	–	**(2,691)**
Total Contributions by and distributions to owners of the company recognised directly in equity		9	43	(2,776)	6	–	**(2,718)**
Balance at 31 December 2012		**4,078**	**11,885**	**14,031**	**1,152**	**20,177**	**51,323**

The accounting policies and notes on pages 36 to 71 are an integral part of these consolidated financial statements.

Statements
Of Cash Flow *for the year ended 31 December 2012*

	Note	Group As at 31 Dec 2012 £000	Group As at 31 Dec 2011 £000	Company As at 31 Dec 2012 £000	Company As at 31 Dec 2011 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	23	**10,348**	12,542	**92**	(695)
Interest paid		**–**	(156)	**–**	–
Income tax paid		**(2,023)**	(1,758)	**(32)**	(50)
Net cash flows generated from/(used in) operating activities		**8,325**	10,628	**60**	(745)
Cash flows from investing activities					
Purchase of property, plant and equipment	10	**(624)**	(1,171)	**–**	–
Interest received		**174**	186	**143**	144
Net cash (used in)/ generated from investing activities		**(450)**	(985)	**143**	144
Cash flows from financing activities					
Net proceeds from issuance of ordinary shares		**59**	395	**59**	395
Dividends paid to company's shareholders	7	**(2,691)**	(6,645)	**(2,691)**	(6,645)
Repayment of mortgage		**–**	(1,852)	**–**	–
Amounts borrowed from group undertakings		**–**	–	**1,510**	9,483
Purchase of own shares		**(146)**	–	**(146)**	–
Net cash (used in)/generated from financing activities		**(2,778)**	(8,102)	**(1,268)**	3,233
Net increase/(decrease) in cash and cash equivalents		**5,097**	1,541	**(1,065)**	2,632
Cash, cash equivalents and bank overdrafts at beginning of year	14	**26,971**	25,412	**23,657**	21,025
Exchange rate gains on cash and cash equivalents		**66**	18	**–**	–
Cash and cash equivalents at end of year	14	**32,134**	26,971	**22,592**	23,657

The accounting policies and notes on pages 36 to 71 are an integral part of these consolidated financial statements.

Accounting Policies

General Information

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

The Group consolidated financial statements were authorised for issue by the Board of Directors on 22 February 2013.

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 through the Income Statement and the impairment in 2009 of the carrying value of the Group's freehold property in Fleet, Hampshire.

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 page 46.

Going Concern

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

Changes in Accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has early adopted IFRS 9 Financial Instruments and IFRS 13 Fair Value Measurement with effect from 1 January 2012. Neither IFRS 9 nor IFRS 13 have had a material impact on the financial statements of the Group or the Company.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning 1 January 2012 that have had a material impact on the Group.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

Basis of consolidation

The financial statements consolidate the results of Microgen plc and its subsidiary undertakings ("subsidiaries"). The results of the subsidiaries acquired are included within the consolidated income statement from the date that control passes to the Group. They are de-consolidated from the date on which control ceases.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest.

The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

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

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:-

<u>Software based activity</u>

Software licences

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

- a signed contract or customer purchase order is in place;
- licence fee is fixed and determinable;
- evidence of software delivery has been received;

– collection of the debt is likely; and

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

Once all of these criteria have been met, all of the Initial or Perpetual Licence Fee is recognised and recognition of the Annual Licence Fee commences. Annual Licence Fees are recognised in the period the services are provided, using a straight-line basis over the term of the licence.

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. Once the enhancement has been accepted by the customer the deferred portion of the revenue is recognised.

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

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 the Board, as the key decision makers. These decision makers are responsible for allocating resources and assessing performance of the operating segments.

The operating segments are Microgen Aptitude Solutions ("MASD") and Financial Systems ("FSD").

The divisions and business categories are allocated central function costs in arriving at operating profit. Group overhead costs are not allocated into the divisions or business categories as the Board believes that these relate to Group activities as opposed to the division or business category.

Leasing

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

Property, plant and equipment

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

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

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

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

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

Goodwill

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

Other 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 the technical feasibility of development has only been satisfied once the product is deployed into a live customer environment and thereafter development expenditure is minimal, therefore all research and development costs have been expensed when incurred.

Externally acquired Software Intellectual Property rights

Rights in externally acquired software assets are capitalised at cost and amortised over their estimated useful economic life. Useful economic life is assessed on an individual basis and can range from 1 to 5 years.

In process R&D

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 and can range from 1 to 5 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, which can range from 1 to 5 years.

Interest income

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

Interest costs

The only interest expense incurred was in respect of bank charges. The expense is recorded as payments arise.

Impairment of non-financial assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation or depreciation 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 (not including the Microgen Value Enhancement and Realisation Bonus Scheme)

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 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.

No charge is taken to the Company income statement as the new share options are treated in a similar manner to capital contributions with an addition to investments as all employees are employed by subsidiary companies.

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 Company's functional and presentation currency.

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

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

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

Pensions

The Group operates defined contribution retirement benefit plans in respect of its employees. 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, 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 for other liabilities and charges

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

Borrowings

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

The carrying amount is increased by the finance costs in respect of the accounting period and reduced by payments made in the period. Borrowings are subsequently stated at amortised cost, any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 out as post acquisition reserves. Dividends paid from pre acquisition reserves are recognised as a reduction in the cost of investment.

Derivative financial instruments and hedging activities

The Group has entered into derivative financial instruments in the form of forward exchange contracts.

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

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

Financial Risk Management

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

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

(a) Market risk – Foreign exchange

The Group's major foreign exchange exposures are to the Euro, Polish Zloty, South African Rand and US Dollar, arising from its trading subsidiaries in Europe, South Africa and the USA. Group policy in this area is to eliminate foreign currency cash flows between Group companies once the size and timing of transactions can be predicted with sufficient certainty. Since April 2007 this has been achieved by hedging Polish Zloty cash outflows 12 months in advance by using forward foreign currency contracts. These have the effect of fixing the sterling amount of Polish Zlotys to be paid in the future. The average remaining life of the forward exchange contracts at 31 December 2012 was 6 months (2011: 6 months).

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

	2012 £000	2011 £000
Polish Zloty gain	**5**	46
Euro loss	**(28)**	(22)
South African Rand loss	**(66)**	(80)
US Dollar loss	**(55)**	(61)
	(144)	(117)

(b) Market risk – Interest rate

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

The Group's policy in this area is to maximise the interest return on cash balances (subject to the constraints imposed by the need to limit credit and liquidity risk as detailed below).

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

	2012 £000	2011 £000
Increase in interest receivable on cash balances	**273**	267

(c) Credit risk

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

– in respect of cash balances to ensure that deposits are always held across at least 2 financial institutions; and

– in respect of trade receivables, the client or prospective client's credit risk is assessed at the commencement of any new project with payment terms agreed which are appropriate. Regular receivable reports are provided to senior management.

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

Counterparty	**Current Rating (Moody's)**	**31 December 2012 Balance £000**	31 December 2011 Balance £000
Bank A	**A3**	**16,087**	12,469
Bank B	**A2**	**6,505**	11,188
Bank C	**A2**	**6,511**	2,016
		29,103	25,673
Customer A	**Baa2**	**443**	848
Customer B	**Baa2**	**227**	691
Customer C	**Baa1**	**223**	387
		893	1,926

(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 3 months; and

– uncommitted facilities will be entered into to support any specific expansion opportunities that arise.

Management monitors rolling 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.

At 31 December 2012	**Less than 1 year £000**
Derivative financial instruments	15
Trade and other payables	17,845
	17,860

At 31 December 2011	Less than 1 year £000
Derivative financial instruments	353
Trade and other payables	19,981
	20,334

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

At 31 December 2012	**Less than 1 year £000**
Forward foreign exchange contracts	
– cash flow hedges	
Outflow	(3,126)
Inflow	3,260
	134

At 31 December 2011	Less than 1 year £000
Forward foreign exchange contracts	
– cash flow hedges	
Outflow	(3,350)
Inflow	3,409
	59

Fair value estimation

The fair values of the financial derivative instruments have been estimated based on discounted expected future cash flows.

The fair values of short-term deposits are assumed to approximate to their book values.

Capital risk management

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.

The Group is in a net funds position in 2011 and 2012 and therefore is ungeared.

There are no further capital requirements to which the Group or Company is subject.

Critical Accounting Estimates and Judgements

(a) Impairment of freehold land and buildings

The Group has carried out an impairment review on the carrying value of its freehold land and buildings. Following the review performed in 2009, which resulted in an impairment of £896,000, the directors have not received any market information either in 2011 or 2012 to require an adjustment to the impairment provision established in 2009.

(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 value in use calculation 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 recorded against the carrying value of goodwill. The impairment is recognised in the income statements in the period which it is deemed to arise.

(c) Impairment of investments

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

d) Taxation

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

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

1. Segmental Information

Business segments

The Board, which is considered to be the chief operating decision maker, has determined the operating segments based on the reports it receives from management to make strategic decisions.

The segmental analysis is split into Microgen Aptitude Solutions Division ("MASD") and Financial Systems Division ("FSD").

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

The divisions and business categories are allocated central function costs in arriving at operating profit. Group overhead costs are not allocated into the divisions or business categories as the Board believes that these relate to Group activities as opposed to the division or business category.

(a) Revenue and operating profit by division

Year ended 31 December 2012	MASD £000	FSD £000	Group £000	Total £000
Revenue	16,316	16,002	–	**32,318**
Operating costs	(13,388)	(7,588)	–	**(20,976)**
Operating profit before Group overheads	2,928	8,414	–	**11,342**
Unallocated Group overheads			(2,211)	**(2,211)**
Operating profit before intangible amortisation				**9,131**
Intangible amortisation	–	(118)	–	**(118)**
Operating profit/(loss)	**2,928**	**8,296**	**(2,211)**	**9,013**
Net finance income				**174**
Profit before tax				**9,187**
Income tax expense				**(2,238)**
Profit for the year				**6,949**

Year ended 31 December 2011	MASD £000	FSD £000	Group £000	Total £000
Revenue	21,799	16,977	–	**38,776**
Operating costs	(17,590)	(8,983)	–	**(26,573)**
Operating profit before Group overheads	4,209	7,994	–	**12,203**
Unallocated Group overheads			(2,604)	**(2,604)**
Operating profit before intangible amortisation				**9,599**
Intangible amortisation	–	(117)	–	**(117)**
Operating profit/(loss)	**4,209**	**7,877**	**(2,604)**	**9,482**
Net finance income				**116**
Profit before tax				**9,598**
Income tax expense				**(2,348)**
Profit for the year				**7,250**

(b) **Other information**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2012				
Capital expenditure				
– property, plant and equipment (note 10)	**317**	**83**	**224**	**624**
Depreciation (note 10)	**(387)**	**(87)**	**(314)**	**(788)**
Amortisation of intangible assets (note 9)	**–**	**(118)**	**–**	**(118)**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2011				
Capital expenditure				
– property, plant and equipment (note 10)	694	56	421	1,171
Depreciation (note 10)	(319)	(88)	(332)	(739)
Amortisation of intangible assets (note 9)	–	(117)	–	(117)
Provision for receivables impairment reversed (note 13)	–	8	–	8

(c) **Balance sheet**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2012				
Consolidated total assets	**23,897**	**41,481**	**18,194**	**83,572**
Consolidated total liabilities	**(7,221)**	**(10,867)**	**(812)**	**(18,900)**
	16,676	**30,614**	**17,382**	**64,672**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2011				
Consolidated total assets	23,454	37,263	20,602	81,319
Consolidated total liabilities	(7,511)	(11,321)	(2,512)	(21,344)
	15,943	25,942	18,090	59,975

Capital expenditure comprises additions to property, plant and equipment.

1 **Segmental Information (continued)**

(d) Geographical segments

The Group has two geographical segments for reporting purposes, the United Kingdom and Ireland 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 2012 £000	Year ended 31 Dec 2011 £000	**Year ended 31 Dec 2012 £000**	Year ended 31 Dec 2011 £000
United Kingdom and Ireland	**23,696**	30,876	**16,157**	22,434
Rest of World	**8,622**	7,900	**16,161**	16,342
	32,318	38,776	**32,318**	38,776

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Capital expenditure	
	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000	**Year ended 31 Dec 2012 £000**	Year ended 31 Dec 2011 £000
United Kingdom and Ireland	**77,762**	76,277	**313**	515
Rest of World	**5,810**	5,042	**311**	656
	83,572	81,319	**624**	1,171

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 2012 £000	Year ended 31 Dec 2011 £000
Employee benefit expense (note 3)	**17,139**	20,859
Depreciation (note 10)	**788**	739
Intangibles amortisation (note 9)	**118**	117
Other operating costs	**5,260**	7,579
	23,305	29,294

Operating profit has been arrived at after charging/(crediting):

	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000
Net foreign exchange losses	**274**	42
Research, development and support costs – MASD	**3,514**	3,187
Research, development and support costs – FSD	**2,172**	2,248
Depreciation of property, plant and equipment (note 10)	**788**	739
Amortisation of intangible assets (note 9)	**118**	117
Operating lease rentals payable:		
– plant and machinery	**26**	32
– other	**599**	674
Repairs and maintenance expenditure on property, plant and equipment	**205**	269
Provision for receivables impairment (note 13)	**–**	(8)

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

	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000
Fees payable to Company auditor for the audit of the Parent Company and consolidated financial statements	**67**	67
Fees payable to the Company's auditor and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	**84**	76
– corporation and sales tax services	**106**	84
– overseas secondment services	**132**	201
	389	428

The Group's auditors perform tax return services for the Group's employees in circumstances where the employer has overseas tax filing requirements pursuant to working on overseas projects. These costs are included in the row entitled 'overseas secondment services'.

A description of the work of the audit committee is included in the corporate governance statement on pages 14 to 19 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 2012 £000	Group Year ended 31 Dec 2011 £000
Employee benefit expense during the year including contractors		
Wages and salaries	**15,375**	18,843
Social security costs	**1,261**	1,483
Other pension costs (note 27)	**442**	418
Share based payments (note 26)	**61**	115
	17,139	20,859

3 Employees and directors (continued)

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

	Group Year ended 31 Dec 2012 Number	Group Year ended 31 Dec 2011 Number
By location:		
United Kingdom and Ireland	**142**	156
Rest of World	**114**	112
	256	268

Headcount at 31 December 2012 was 238 (2011: 273) including contractors.

	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000
Key management compensation:		
Salaries and short-term employee benefits	**2,096**	2,558
Post employment benefits	**105**	97
Share based payments	**45**	101
	2,246	2,756

Key management compensation for the Group includes the Board of the Company and Operating Board of the Group.

	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000
Directors		
Aggregate emoluments	**756**	938
Company contributions to money purchase pension scheme	**22**	22
	778	960

Average monthly number of employees and directors in key management were 14 (2011: 14).

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

The information on directors' remuneration required by the Companies Act and the Listing Rules of the Financial Services Authority is contained in the Directors' Report on Remuneration on pages 20 to 27.

4 Net finance income

	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000
Finance cost		
Interest payable on bank borrowings	**–**	(49)
Interest in respect of interest swap	**–**	(83)
Interest – other	**–**	(10)
	–	(142)
Finance income		
Interest on bank deposits	**169**	185
Interest in respect of interest swap	**–**	72
Interest on Corporation Tax	**5**	1
	174	258
Net finance income	**174**	116

5 Income tax expense

Analysis of charge in the year	**Year ended 31 Dec 2012 £000**	Year ended 31 Dec 2011 £000
Current tax:		
– current year charge	**(1,973)**	(2,269)
– prior year (charge)/credit	**(71)**	75
Total current tax	**(2,044)**	(2,194)
Deferred tax (note 12):		
– current year charge	**(139)**	(165)
– prior year (charge)/credit	**(55)**	11
Total deferred tax	**(194)**	(154)
Income tax expense	**(2,238)**	(2,348)

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 24.5%.

As the year end is after substantive enactment date of the Finance Act 2011 and after the substantive enactment dates (26 March 2012 & 3 July 2012) of the March 2012 UK Budget Statement changes, these financial statements account for the change in tax rate from 26% to 24% with effect from 1 April 2012 and the change in tax rate from 24% to 23% with effect from 1 April 2013. The deferred tax balances have been re-measured to reflect this reduction.

Consequently within the analysis of the deferred tax charge, there is a separate line item disclosing the impact of the change in tax rate on the opening deferred tax balances.

5 **Income tax expense (continued)**

The tax for the year is lower (2011: lower) than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Profit on ordinary activities before tax	**9,187**	9,598
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	**(2,251)**	(2,543)
Effects of:		
Adjustment to tax in respect of prior period	**(126)**	86
Adjustment in respect of foreign tax rates	**7**	39
Foreign exchange gains on intercompany balances	**(42)**	(126)
Research and development tax credit	**135**	53
Expenses not deductible for tax purposes		
Share based payment expenses	**(89)**	(1)
Other	**(58)**	(15)
Changes in UK Corporation Tax Rates	**(20)**	(97)
Recognition of tax losses	**206**	256
Total taxation	**(2,238)**	(2,348)

The total tax charge of £2,238,000 (2011: £2,348,000) represents 24.4% (2011: 24.5%) of the Group profit before tax of £9,187,000 (2011: £9,598,000).

After adjusting for the impact of amortisation, change in tax rates, share based payment charge and prior year tax charges the tax charge for the year of £2,319,000 (2011: £2,687,000) represents 25.23% (2011: 28.00%), of the adjusted profit, which is the tax rate used for calculating the adjusted earnings per share.

6 **Earnings per share**

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

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

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

	Year ended 31 Dec 2012			Year ended 31 Dec 2011		
	Earnings £000	**Weighted average number of shares (in thousands)**	**Per-share amount pence**	Earnings £000	Weighted average number of shares (in thousands)	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**6,949**	**81,572**	**8.5**	7,250	81,144	8.9
Effect of dilutive securities:						
– share options	**–**	**1,873**	**(0.2)**	–	2,205	(0.2)
Diluted EPS	**6,949**	**83,445**	**8.3**	7,250	83,349	8.7

To provide an indication of the underlying operating performance per share the adjusted profit after tax figure shown below excludes intangibles amortisation and has a tax charge using the effective rate of 25.23% (2011: 28.00%).

	Year ended 31 Dec 2012		Year ended 31 Dec 2011	
	Basic EPS pence	**Diluted EPS pence**	Basic EPS pence	Diluted EPS pence
Earnings per share	**8.5**	**8.3**	8.9	8.7
Amortisation of intangibles net of tax	**0.1**	**0.1**	0.1	0.1
Prior years' tax charge	**0.2**	**0.2**	(0.1)	(0.1)
Tax losses recognised	**(0.3)**	**(0.3)**	(0.3)	(0.3)
Adjusted earnings per share	**8.5**	**8.3**	8.6	8.4

	Year ended 31 Dec 2012 £000	Year ended 31 Dec 2011 £000
Profit on ordinary activities before tax and intangibles amortisation	**9,305**	9,715
Tax charge at a rate of 25.23% (2011: 28.00%)	**(2,348)**	(2,720)
Adjusted profit on ordinary activities after tax	**6,957**	6,995
Prior years' tax (charge)/credit	**(126)**	86
Share options	**–**	(1)
Amortisation of intangibles net of tax	**(88)**	(86)
Recognition of tax losses	**206**	256
Profit on ordinary activities after tax	**6,949**	7,250

7 Dividends

	2012 pence per share	2011 pence per share	**2012 £000**	2011 £000
Dividends paid:				
Interim dividend	**1.1**	1.1	**897**	874
Final dividend (prior year)	**2.2**	2.1	**1,794**	1,701
Special dividend	**–**	5.0	**–**	4,070
	3.3	8.2	**2,691**	6,645
Proposed but not recognised as a liability:				
Final dividend (current year)	**2.2**	2.2	**1,795**	1,794
Special dividend (current year)	**5.2**	–	**4,242**	–
	7.4	2.2	**6,037**	1,794

The proposed final and special dividends were proposed by the Board on 22 February 2013 but were not included as a liability as at 31 December 2012, in accordance with IAS 10 'Events after the Balance Sheet date'. If approved by the shareholders at the Annual General Meeting the proposed final and special dividends will be payable on 28 May 2013 to shareholders on the register at the close of business on 26 April 2013.

8 Goodwill

	31 Dec 2012 £000	31 Dec 2011 £000
Cost		
At 1 January and 31 December	**59,709**	59,709
Accumulated impairment		
At 1 January and 31 December	**(17,935)**	(17,935)
Net book amount at 1 January and 31 December	**41,774**	41,774

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

	Microgen Aptitude Solutions £000	Financial Systems £000	Total £000
At 1 January and 31 December 2012	15,347	26,427	41,774

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

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

The Board-approved plans, prepared for the purpose of the annual impairment test, project that operating income from the Microgen Aptitude Solutions Division will increase by 10% per annum for the next 4 years following the approved 2013 plan. The Financial Systems Division estimates project a reduction in operating income of 2.5% per annum over the same period. The terminal growth rates thereafter are estimated to be not greater than 2.25% (2011: 2.25%). The conversion to cash ratio is assumed to be 77% based on the UK corporation tax rate effective from 1 April 2013. 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% (2011: 9.8%).

A movement of 25% in any one of the assumptions would not result in an impairment. It is possible that outcomes within the forthcoming financial years different from the key assumptions, could require a material adjustment to the carrying value of the Group's goodwill.

9 Other intangible assets

	Externally acquired Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Cost			
At 1 January 2012	**876**	**1,329**	**2,205**
Disposals	**–**	**(453)**	**(453)**
At 31 December 2012	**876**	**876**	**1,752**
Accumulated amortisation and impairment			
At 1 January 2012	758	1,329	2,087
Charge for the year (note 2)	118	–	118
Disposals	–	(453)	(453)
At 31 December 2012	**876**	**876**	**1,752**
Net book amount			
At 31 December 2012	–	–	–

	Externally acquired Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Net book value			
At 1 January 2011	**235**	**–**	**235**
Cost			
At 1 January 2011 and 31 December 2011	**876**	**1,329**	**2,205**
Accumulated amortisation and impairment			
At 1 January 2011	641	1,329	1,970
Charge for the year (note 2)	117	–	117
At 31 December 2011	**758**	**1,329**	**2,087**
Net book amount			
At 31 December 2011	**118**	**–**	**118**

The Company held no other intangible assets during the year (2011: nil).

The externally acquired software IPR and in process R&D relates to expected future benefits of development projects in progress at the date of acquisition. As at 31 December 2012 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.

Amortisation in the year is shown in operating costs.

10 Property, plant and equipment

	Freehold land and buildings £000	Leasehold improv-ements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group					
Cost					
At 1 January 2012	4,579	1,015	2,317	196	8,107
Additions	–	115	508	1	624
Disposals	–	(280)	(76)	–	(356)
Reclassification	–	(6)	–	6	–
Exchange movements	–	4	141	–	145
At 31 December 2012	**4,579**	**848**	**2,890**	**203**	**8,520**
Accumulated depreciation					
At 1 January 2012	453	722	1,294	117	2,586
Charge for the year (note 2)	62	141	561	24	788
Disposals	–	(280)	(76)	–	(356)
Exchange movements	–	4	108	(1)	111
At 31 December 2012	**515**	**587**	**1,887**	**140**	**3,129**
Net book amount					
At 31 December 2012	**4,064**	**261**	**1,003**	**63**	**5,391**

	Freehold land and buildings £000	Leasehold improv-ements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group					
Net book value					
At 1 January 2011	**4,180**	**58**	**752**	**167**	**5,157**
Cost					
At 1 January 2011	4,573	475	3,153	239	8,440
Additions	–	229	865	77	1,171
Disposals	–	–	(1,106)	(104)	(1,210)
Reclassification	6	317	(325)	2	–
Exchange movements	–	(6)	(270)	(18)	(294)
At 31 December 2011	**4,579**	**1,015**	**2,317**	**196**	**8,107**
Accumulated depreciation					
At 1 January 2011	393	417	2,401	72	3,283
Charge for the year (note 2)	54	149	517	19	739
Disposals	–	–	(1,078)	(104)	(1,182)
Reclassification	6	160	(309)	143	–
Exchange movements	–	(4)	(237)	(13)	(254)
At 31 December 2011	**453**	**722**	**1,294**	**117**	**2,586**
Net book amount					
At 31 December 2011	**4,126**	**293**	**1,023**	**79**	**5,521**

The Company held no property, plant and equipment in the year (2011: nil).

11 Investments in subsidiaries

The Group did not hold any investments in 2012 (2011: nil).

	2012 £000	2011 £000
Company		
Cost		
At 1 January	**53,846**	53,731
Share based payments – share options granted to employees of subsidiaries	**61**	115
At 31 December	**53,907**	53,846
Impairment		
At 31 December	**13,155**	13,155
Net book amount		
At 31 December	**40,752**	40,691

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

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

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

Principal subsidiaries	Country	Activity
Microgen Aptitude Limited	England & Wales	Software and Services
Microgen (Channel Islands) Limited *	Guernsey	Software and Services
Microgen Wealth Management Systems Limited *	England & Wales	Software and Services
Microgen Banking Systems Limited *	England & Wales	Software and Services
Microgen Solutions Limited *	England & Wales	Software and Services
Microgen Asset Management Solutions Limited *	England & Wales	Software and Services
Microgen Solutions Inc.*	USA	Software and Services
Microgen (South Africa) Limited *	South Africa	Software and Services
Microgen Poland Sp. Z.o.o.*	Poland	Development
Microgen Management Services Limited	England & Wales	Employment and Group Services
Microgen Financial Systems Limited	England & Wales	Software and Services

* Indirectly held by Microgen plc

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

12 Deferred income tax assets

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%).

The following are major deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Accelerated capital allowances £000	Short term timing differences £000	Share-based payments £000	Taxable trading losses £000	Total £000
Group					
At 1 January 2011	294	467	290	351	1,402
Credit/(charge) to income statement for the year (note 5)	35	(24)	(20)	(145)	(154)
Credit to equity (note 22)	–	93	56	–	149
Exchange differences	–	(73)	–	–	(73)
At 31 December 2011	329	463	326	206	1,324
(Charge)/credit to income statement for the year for temporary difference	(54)	53	(80)	(8)	(89)
(Charge)/credit to income statement for reduction in tax rate	(26)	(37)	(26)	(16)	(105)
Total (charge)/credit to income statement for the year (note 5)	(80)	16	(106)	(24)	(194)
(Charge)/credit to equity (note 22)	–	(89)	25	–	(64)
Exchange differences	–	(25)	–	–	(25)
At 31 December 2012	**249**	**365**	**245**	**182**	**1,041**

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

At the balance sheet date, the Group has unused tax losses of £7,606,000 (2011: £8,518,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £790,000 (2011: £822,000) of such losses which is the maximum the Group anticipates being able to utilise in the year ending 31 December 2013. No deferred tax has been recognised in respect of the remaining £6,816,000 (2011: £7,696,000) due to the unpredictability of future profit streams.

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

There are no deferred tax liabilities at 31 December 2012 (2011: nil).

Included in the deferred tax asset above is an amount of £592,000 which is expected to be utilised in the next twelve months.

13 Trade and other receivables

	Group 31 Dec 2012 £000	Group 31 Dec 2011 £000	Company 31 Dec 2012 £000	Company 31 Dec 2011 £000
Trade receivables	**2,411**	5,146	**–**	–
Less: provision for impairment of receivables	**(61)**	(64)	**–**	–
Trade receivables – net	**2,350**	5,082	**–**	–
Amounts owed by group undertakings	**–**	–	**8,609**	1,876
Other receivables	**139**	42	**26**	62
Prepayments and accrued income	**674**	487	**87**	73
	3,163	5,611	**8,722**	2,011

Amounts owed by group undertakings are unsecured and repayable on demand.

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

Within the trade receivables balance of £2,411,000 (2011: £5,146,000), there are balances totalling £567,000 (2011: £1,356,000) which, at 31 December 2012, were overdue for payment. Of this balance £535,000 (2011: £1,334,000) has been collected at 22 February 2013 (2011: 24 February 2012).

	Trade receivables 31 Dec 2012 £000	Trade receivables 31 Dec 2011 £000
The ageing of the trade receivables is as follows:		
Not past due	**1,844**	3,790
Past due		
Less than one month overdue	**244**	1,295
One to two months overdue	**296**	43
Two to three months overdue	**1**	17
More than three months overdue	**26**	1
At 31 December	**2,411**	5,146

The Company had no trade receivables in either year.

Trade and other receivables are denominated in the following currencies:

	Group 31 Dec 2012 £000	Group 31 Dec 2011 £000	Company 31 Dec 2012 £000	Company 31 Dec 2011 £000
Sterling	**2,397**	5,154	**8,722**	2,011
South African Rand	**14**	9	**–**	–
United States Dollars	**604**	401	**–**	–
Other	**148**	47	**–**	–
	3,163	5,611	**8,722**	2,011

13 Trade and other receivables (continued)

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

	Group 31 Dec 2012 £000	Group 31 Dec 2011 £000
At 1 January	**64**	78
Receivables written off as uncollectable	**(3)**	(6)
Unused provisions reversed	**–**	(8)
At 31 December	**61**	64

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

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

The Company does not have any provisions for impairments of trade receivables (2011: nil).

14 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group 31 Dec 2012 £000	Group 31 Dec 2011 £000	Company 31 Dec 2012 £000	Company 31 Dec 2011 £000
Sterling	**31,106**	25,674	**22,592**	23,657
South African Rand	**667**	509	**–**	–
United States Dollar	**98**	390	**–**	–
Polish Zloty	**263**	398	**–**	–
Cash at bank and in hand	**32,134**	26,971	**22,592**	23,657

The effective interest rate on short term deposits was 0.46% (2011: 0.44%).

15 Trade and other payables

	Group 31 Dec 2012 £000	Group 31 Dec 2011 £000	Company 31 Dec 2012 £000	Company 31 Dec 2011 £000
Trade payables	**368**	247	**91**	21
Amounts owed to group undertakings	**–**	–	**20,617**	12,364
Other tax and social security payable	**658**	1,097	**–**	–
Other payables	**657**	253	**25**	25
Accruals	**1,877**	3,345	**–**	–
Deferred income	**14,285**	15,039	**–**	–
	17,845	19,981	**20,733**	12,410

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

16 Provisions for other liabilities and charges

	Property provision	
	31 Dec 2012	31 Dec 2011
	£000	£000
Group		
At 1 January	**242**	289
(Credited)/charged to income statement	**(45)**	55
Charged to property, plant and equipment	**100**	–
Utilised	**–**	(93)
Foreign exchange	**1**	(9)
At 31 December	**298**	242

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

	Property provision	
	31 Dec 2012	31 Dec 2011
	£000	£000
Current	**42**	107
Non-current	**256**	135
	298	242

The provision at 31 December 2012 relates solely to the cost of dilapidations in respect of its occupied leasehold premises. Of the non-current provision, £256,000 is expected to unwind within 2 to 5 years (2011: £135,000).

The Company does not hold any provisions for other liabilities and charges.

17 Financial instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to risk management.

	31 Dec 2012		31 Dec 2011	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Forward foreign exchange contracts – cash flow hedges	**69**	**15**	–	353
	69	**15**	–	353

The company has no derivative financial instruments (2011: none).

All financial instruments disclosed are current.

Currency derivatives

The forward foreign exchange contracts are used to hedge the Group's forecasted Polish Zloty denominated costs over the next 12 months.

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

	31 Dec 2012	31 Dec 2011
	£000	£000
Forward foreign exchange contracts – Polish Zloty	**3,126**	3,350

17 Financial instruments (continued)

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

At 31 December 2012, the fair value of the Group's currency derivatives is estimated to be a net asset of approximately £54,000 (2011: liability £353,000), comprising £69,000 assets (2011: £nil) and £15,000 liabilities (2011: £353,000), based on quoted market values.

The forward contracts are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity. These will be transferred to the income statement over the next 12 months (2011: 12 months).

A loss of £199,000 (2011: £69,000) has been transferred to the income statement in respect of contracts which have matured during the period.

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 2012		31 Dec 2011	
	Note	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Group					
Cash at bank and in hand	14	**32,134**	**32,134**	26,971	26,971

		31 Dec 2012		31 Dec 2011	
	Note	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Company					
Cash at bank and in hand	14	**22,592**	**22,592**	23,657	23,657

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

The Group or Company did not have any loans 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	**2012 £000**	2011 £000
Trade receivables		
Banks and financial institutions	**1,578**	2,922
Other corporates	**266**	868
Total current trade receivables	**1,844**	3,790
Overdue trade receivables	**567**	1,356
Total trade receivables	**2,411**	5,146

Cash at bank and short-term bank deposits	Current Rating (Moody's)	2012 £000	2011 £000
	Aa2	–	2,017
	Aa3	2,002	–
	A1	–	11,976
	A2	13,016	12,469
	A3	17,116	509
		32,134	26,971

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

18 Share capital

	31 Dec 2012		31 Dec 2011	
Group and company	**Number**	**£000**	Number	£000
Authorised ordinary shares of 5p each	145,000,000	7,250	145,000,000	7,250
Issued and fully paid:				
At 1 January	81,395,677	4,069	80,839,259	4,041
Issued under share option schemes	307,173	15	556,418	28
Share buyback	(121,000)	(6)	–	–
At 31 December	81,581,850	4,078	81,395,677	4,069

In 2012, the Company repurchased 121,000 ordinary shares for consideration of £145,200. These shares were then cancelled.

18 Share capital (continued)

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

Period	Year of grant	Exercise price	2012 Number	2011 Number
Between 22 July 2005 and 22 July 2012	2002	42.5p	–	10,000
Between 18 February 2006 and 18 February 2013	2003	20.33p	6,000	6,000
Between 24 February 2006 and 24 February 2013	2003	24.5p	50,000	50,000
Between 28 July 2006 and 28 July 2013	2003	42.5p	25,000	25,000
Between 7 November 2006 and 7 November 2013	2003	42.5p	75,000	75,000
Between 28 April 2007 and 28 April 2014	2004	60p	25,000	27,500
Between 22 September 2008 and 22 September 2015	2005	70.50p	167,500	180,000
Between 24 May 2009 and 24 May 2016	2006	5p	397,991	397,991
Between 15 June 2009 and 15 June 2016	2006	59.33p	16,666	26,666
Between 5 March 2010 and 5 March 2017	2007	5p	93,340	93,340
Between 6 August 2010 and 6 August 2017	2007	5p	210,015	210,015
Between 6 August 2010 and 6 August 2017	2007	46.83p	51,336	51,336
Between 28 February 2011 and 28 February 2018	2008	48.17p	33,331	33,331
Between 2 May 2011 and 2 May 2018	2008	52.33p	1,000,000	1,000,000
Between 2 December 2011 and 2 December 2018	2008	43.50p	92,414	174,995
Between 2 December 2011 and 2 December 2018	2008	5p	116,219	322,478
Between 16 April 2013 and 16 April 2020	2010	78p	–	25,000
Between 13 December 2013 and 13 December 2020	2010	5p	130,000	130,000
Between 3 March 2014 and 3 March 2021	2011	140p	70,000	70,000
Between 20 September 2014 and 20 September 2021	2011	5p	15,000	15,000
			2,574,812	2,923,652

19 Share premium account

	£000
Group and Company	
At 1 January 2011	11,531
Premium on shares issued during the year under the share option schemes	311
At 31 December 2011	11,842
Premium on shares issued during the year under the share option schemes	43
At 31 December 2012	**11,885**

20 Capital Redemption Reserve

	£000
Group and Company	
At 1 January 2012	1,146
On shares purchased and cancelled in 2012	6
At 31 December 2012	**1,152**

The capital redemption reserve represents amounts transferred from share capital on the redemption of own issued equity instruments.

21 Other reserves

	Hedging reserve £000	Merger reserve £000	Other reserves £000	Total £000
Group				
At 1 January 2011	12	36,974	80	37,066
Cash flow hedges				
– net fair value gains in the period net of tax	(367)	–	–	(367)
Shares issued under share option schemes	–	–	(80)	(80)
At 31 December 2011	(355)	36,974	–	36,619
Cash flow hedges				
– net fair value gains in the period net of tax	409	–	–	409
At 31 December 2012	**54**	**36,974**	**–**	**37,028**

	Merger reserve £000	Other reserves £000	Total £000
Company			
At 1 January 2011	20,177	80	20,257
Shares issued under share option schemes	–	(80)	(80)
At 31 December 2011	20,177	–	20,177
At 31 December 2012	**20,177**	**–**	**20,177**

22 Retained earnings

	Group £000	Company £000
At 1 January 2011	5,354	23,013
Profit for the year	7,250	44
Share options – value of employee service (note 26)	115	115
Shares issued under share option schemes	80	80
Deferred tax on financial instruments (note 12)	93	–
Deferred tax on share options (note 12)	56	
Corporation tax on share options	82	–
Exchange rate adjustments	(142)	–
Share options issued from Microgen Employee Share Participation Scheme Trust	56	56
Dividends paid (note 7)	(6,645)	(6,645)
At 31 December 2011	6,299	16,663
Profit for the year	6,949	144
Share options – value of employee service (note 26)	61	61
Shares repurchased and cancelled	(146)	(146)
Deferred tax on financial instruments (note 12)	(89)	–
Deferred tax on share options (note 12)	25	–
Corporation tax on share options	41	–
Exchange rate adjustments	80	–
Dividends paid (note 7)	(2,691)	(2,691)
At 31 December 2012	**10,529**	**14,031**

The profit for the financial year dealt with in the financial statements of the Company was £144,000 (2011: £44,000). As permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the Company.

23 Cash flow from operating activities

Reconciliation of profit before tax to net cash generated from operations

	Group Year ended 31 Dec 2012 £000	Group Year ended 31 Dec 2011 £000	**Company Year ended 31 Dec 2012 £000**	Company Year ended 31 Dec 2011 £000
Profit before tax	**9,187**	9,598	**143**	146
Adjustments for:				
Depreciation	**788**	739	**–**	–
Amortisation of intangible assets	**118**	117	**–**	–
Share-based payment expense	**61**	115	**–**	–
Finance income	**(174)**	(258)	**(143)**	(144)
Finance costs	**–**	142	**–**	–
Changes in working capital:				
Decrease/(increase) in receivables	**2,448**	360	**22**	(693)
(Decrease)/increase in payables	**(2,136)**	1,776	**70**	(4)
Increase/(decrease) in provisions	**56**	(47)	**–**	–
Cash generated from/(used in) operations	**10,348**	12,542	**92**	(695)

24 Commitments

	31 Dec 2012 £000	31 Dec 2011 £000
Group		
Contracts placed for future capital expenditure not provided in the financial statements	–	11

The Company has no unprovided financial commitments (2011: £nil).

25 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 2012		31 Dec 2011	
	Properties £000	Other £000	Properties £000	Other £000
Within one year	539	22	513	15
In the second to fifth year inclusive	623	11	1,045	11
	1,162	33	1,558	26

The Company had no operating lease commitments during the year (2011: nil)

26 Share based payments (excluding the Microgen Value Enhancement and Realisation Bonus Scheme)

Performance Share Plan

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

At the year end there were 7 (2011: 15) employees currently participating in the scheme.

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

Awards granted under the PSP will become exercisable from the third anniversary of the date of grant, subject to specific criteria being met. The performance conditions are structured so that 50 per cent of an award will be subject to an adjusted earnings per share target and 50 per cent are subject to a total shareholder return target.

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:

	2012 Number	2012 Weighted average exercise price	2011 Number	2011 Weighted average exercise price
Outstanding at 1 January	**1,168,824**	**5p**	1,208,126	5p
Granted	**–**	**5p**	15,000	5p
Lapsed	**–**	**5p**	(31,385)	5p
Exercised	**(206,259)**	**5p**	(22,917)	5p
Outstanding at 31 December	**962,565**	**5p**	1,168,824	5p
Exercisable at 31 December	**817,565**	**5p**	1,023,824	5p

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 144.40p (2011: 148.00p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 4.74 years (2011: 5.95 years).

In 2012 no options were granted (2011: 15,000 options were granted on 20 September 2011 with an estimated fair value of 148.94p).

Share options

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. 24 employees (2011: 36) 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:

	2012 Number	2012 Weighted average exercise price	2011 Number	2011 Weighted average exercise price
Outstanding at 1 January	**1,754,828**	**55.64p**	2,403,007	55.61p
Granted	**–**	**–**	70,000	140.00p
Lapsed	**(41,667)**	**66.49p**	(124,678)	60.81p
Exercised	**(100,914)**	**47.78p**	(593,501)	63.24p
Outstanding at 31 December	**1,612,247**	**55.86p**	1,754,828	55.64p
Exercisable at 31 December	**1,542,247**	**52.04p**	1,659,828	51.75p

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 137.27p (2011: 144.69p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 4.65 years (2011: 5.70 years).

Included within the outstanding share options at 31 December 2012 under Share Option Plans and the PSP were outstanding share options of 1,397,991 (2011: 1,397,991) which whilst outside of the Association of British Insurers recommended limits, have been approved by the Company's shareholders.

In 2012 no options were granted (2011: 70,000 options granted with an estimated fair value of the options granted on that date of 55.54p).

The Group recognised total expenses of £61,000 (2011: £115,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total cost in the income statement was £167,000 (2011: £135,000). There was a deferred tax credit taken directly to equity of £25,000 (2011; £56,000).

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 £442,000 (2011: £418,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2012, contributions of £76,000 (2011: £72,000) due in respect of the 2012 reporting period 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:

Microgen's Chairman, Mr Ratcliffe, is Executive Chairman of and equity holder in RM plc. During the year, the amounts invoiced for software and services to RM Education Limited, a subsidiary of RM plc, excluding VAT were £364,000 (2011: £nil). At 31 December 2012 £23,000 was owed by RM Education Limited (2011: £nil). During 2012 Microgen entered into two contracts with RM Education Limited to provide software and services. One contract relates to upgrading RM Education Limited's internal business reporting capability and the other to provide software and services for RM Books and RM Unify. Mr Ratcliffe did not participate in the negotiations in respect of these contracts.

Mr Ratcliffe is also the Executive Chairman of and equity holder in Sagentia Group plc, the parent company of Sagentia Limited. No amounts were invoiced by Sagentia Limited to Microgen in 2012 (2011: £38,000) and no amounts were outstanding at 31 December 2012 (2011: £37,500). Mr Ratcliffe did not participate in the negotiations in respect of the services which were invoiced in 2011.

The Company acts as the Group's treasury vehicle and during the year borrowed a net £12,008,000 (2011: £10,488,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2012 (2011: nil), as defined by International Accounting Standard No 24 "Related Party Disclosures" other than key management compensation as disclosed in note 3.

29 Contingent Liabilities

The Report of the Directors on Remuneration includes details in respect of the Value Enhancement and Realisation Bonus Scheme ("VERBS") and the maximum potential award payable if a change of control of Microgen plc had completed at the closing mid-market share price on 31 December 2012. VERBS awards are cash and/or equity settled and the Group has performed an assessment of the fair value of any award as at 31 December 2012 and determined not to recognise any liability in respect of VERBS at 31 December 2012 (2011: nil).

Shareholder
Information

Shareholder Analysis Range	Number of Shareholders	Percentage of overall total	Number of shares	Percentage of overall total
1 – 1,000	661	56.2%	241,824	0.3%
1,001 – 5,000	297	25.2%	721,825	0.9%
5,001 – 50,000	147	12.5%	2,180,899	2.6%
50,001 – 500,000	44	3.7%	6,425,791	7.9%
500,001 and above	28	2.4%	72,011,511	88.3%
Totals	**1,177**	**100%**	**81,581,850**	**100%**

Investor type	Number of shares	Percentage of overall total
Nominee Companies	59,808,755	73.3%
Private individuals	12,935,334	15.9%
Banks and bank nominees	4,850,516	5.9%
Pension funds	3,806,692	4.7%
Limited companies	177,342	0.2%
Other	3,211	0.0%
Totals	**81,581,850**	**100.0%**

Registered Office and Group Head Office

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

Telephone: 020 7496 8100
Facsimile: 020 7496 8101
e-mail: investors@microgen.com

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
e-mail ssd@capitaregistrars.com

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

Shareholders' enquiries

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

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

Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 a.m. on 13 May 2013 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 annual report 2012

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Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ
Telephone: 020 7496 8100 Facsimile: 020 7496 8101
Web: www.microgen.com Company Registered Number: 1602662