microgen

microgen plc

annual report

2011

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. Prior to joining Microgen, he was the senior vice-president of Dell Computer Corporation, responsible for the Europe, Middle East and Africa Region. Mr Ratcliffe is also Chairman of Sagentia Group plc and Executive Chairman of 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 Chairman of Phoenix IT Group plc and Ten Alps plc and non-executive director of Psion plc.

Paul Davies
Non-Executive Director
Paul Davies was appointed on 1 December 1999 as Group Managing Director and non-executive director on 5 September 2000. Mr Davies is also the Chief Executive Officer of Parity plc. Mr Davies has advised the Board of his intention not to stand for re-election at the 2012 Annual General Meeting.

Ralph Kanter
Non-Executive Director
Ralph Kanter was appointed as a non-executive director on 16 September 1998. He was Chairman and Chief Executive of TRACKER Network plc, a company he formed in 1990, until it was sold to a management buyout in 1999. He currently holds a wide range of directorships in small and medium-sized private companies. Mr Kanter has advised the Board of his intention not to stand for re-election at the 2012 Annual General Meeting.

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 Inc
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Registrars
Capita Registrars Limited
The Registry
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128 Queen Victoria Street
London EC4V 4BJ

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Chairman's Statement

Microgen reports a strong operating performance for the year ended 31 December 2011, with revenue growth of 15% for the Group. Operating margins increased to 25% (2010: 24%) while continuing to expense all research and development costs. As a result of good cash generation, the Group had net funds of £27.0 million at 31 December 2011 (2010: £23.6 million) after returning £6.6 million to shareholders during the year through dividends, including the special dividend in December.

The Microgen Aptitude Solutions Division ("MASD") reported revenue growth of 28% and an increased operating margin of 19% in 2011 (2010: 15%). The division continues to see good demand for its technology, although the Board remains cautious in the macro-economic environment, the effects of which became progressively more apparent in the second half of 2011, particularly in the financial services sector. In 2012, a new 3D version of Microgen Aptitude is scheduled for launch, which is anticipated to further extend Microgen's product leadership in a market where the challenges of "Big Data" and related project complexity are becoming increasingly recognised.

The Financial Systems Division ("FSD") provides software products and services in mature financial market sectors where growth is more limited. The division is highly profitable producing operating margins of 47% in 2011 (2010: 48%) with strong cash flow and high recurring revenues. The Board anticipates the market and business characteristics of FSD to continue in 2012.

The Board has always recognised the need for operational performance to convert into shareholder value and introduced the Value Enhancement and Realisation Bonus Scheme ("VERBS") in October 2008. At that time, the market capitalisation of Microgen was £37.0 million with a share price of 36 pence. Since the introduction of VERBS and up to 31 December 2011, the Board has now returned £28.2 million through tender offers and dividends, representing 76% of the market capitalisation prior to the introduction of VERBS. Furthermore, despite this substantial return of capital to shareholders, at 31 December 2011, Microgen had a market capitalisation of £105.2 million.

Reflecting the strong operating performance in 2011 and the Group's robust balance sheet, the Board is recommending a final dividend of 2.2 pence per share (2010: 2.1 pence), thereby increasing the full year dividend by 10% to 3.3 pence (2010: 3.0 pence), in addition to the special dividend of 5.0 pence per share paid in December 2011. Subject to shareholder approval, the final dividend will be payable on 11 May 2012 to shareholders on the register at the close of business on 20 April 2012.

The past year has seen an evolution of the Microgen Board, with Mr David Sherriff being appointed Chief Executive Officer in April and an effective transition of the non-executive Directors following the decision of Mr Ralph Kanter and Mr Paul Davies to retire from the Board. The Board would like to thank Mr Kanter and Mr Davies for their long service to Microgen and their contribution to the transition of the Group from a microfiche and printing company to the technology leading organisation that is Microgen today. Replacing the retiring directors, Ms Vanda Murray OBE joined the Board as a non-executive Director in September 2011, also becoming Chairman of the Remuneration Committee in January 2012, and Mr Peter Whiting was appointed as a non-executive Director in February 2012. The senior independent non-executive Director of the Board remains Mr Peter Bertram who also chairs the Audit Committee.

In summary, the Board is pleased with the performance of the Group in 2011. However, consistent with other suppliers having material exposure to the financial services sector, Microgen did experience contract deferrals and increasing pressure on consultant utilisation in the second half of the year. While the Group's high level of recurring revenue provides resilience against the full effects of the market deterioration, the macro-economic uncertainty will impact the Group in the first half of 2012. However, some deferred deals are now starting to progress and overall, due to Microgen's annual licensing business model and conservative operational approach, the Board anticipates that the impact on revenue in 2012 will not translate into a material impact on the Group's profit performance for the year ahead. Furthermore, the continued investment (fully expensed) in Microgen Aptitude should maintain the market leadership position of this high performance product in an increasingly technically demanding environment, a competitive position that the Board believe is sustainable in the foreseeable future.

Martyn Ratcliffe

Chairman

Group Financial Performance and

Finance Director's Report

Revenue for the year ended 31 December 2011 was £38.8 million (2010: £33.7 million) producing an adjusted operating profit of £9.6 million (2010: £8.1 million). (Throughout this statement adjusted operating profit and operating margin exclude intangible amortisation unless stated to the contrary.) The Group reported a profit for the year attributable to equity shareholders of £7.3 million (2010: £6.5 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. This is consistent with the Group's conservative accounting policies. The overall group expenditure on research, development and support activities in 2011 was £5.4 million (2010: £4.9 million) of which £3.2 million (2010: £2.8 million) was incurred by the Microgen Aptitude Solutions Division.

Headcount at 31 December 2011 was 273 including 15 contractors and associates (31 December 2010: 264 including 21 contractors and associates). At the year end there were 162 employees (2010: 154) within the Microgen Aptitude Solutions Division ("MASD") and 85 employees (2010: 84) within the Financial Systems Division ("FSD"). In addition there were 26 employees (2010: 26) within Group and Central Functions.

Adjusted diluted earnings per share for the year ended 31 December 2011 increased by 24% to 8.4 pence (2010: 6.8 pence) with diluted earnings per share of 8.7 pence (2010: 7.5 pence). The Group's tax rate used in calculating adjusted earnings per share is 28.0% (2010: 27.4%). The total tax charge of £2.3 million (2010: £1.3 million) represents 24% of the Group's profit before tax (2010: 17%).

Cash generated from operations in the year was £12.5 million (2010: £11.3 million) benefitting once again from good year end cash collections and some advance client payments. After returning £6.6 million (2010: £8.2 million including the 2010 tender offer) of cash to shareholders through dividends and the special dividend, the Group continues to have a strong balance sheet with net funds at 31 December 2011 of £27.0 million (2010: £23.6 million) with no debt at the year end following the repayment of the £1.6 million loan associated with the Group's Fleet freehold property in September.

Philip Wood

Group Finance Director

Microgen's two operating divisions performed well in 2011. The Microgen Aptitude Solutions Division reported continued growth and increased profitability as the business continued to scale and the Financial Systems Division maintained its strong operating margins and high levels of recurring revenues.

In order to build the long-term recurring revenue base, the Group continues to promote software licence sales on multi-year annual licence contracts, with a conservative revenue recognition policy, although a minority of customers with capital budgets do require traditional initial/maintenance software licensing models. The Group has also maintained its disciplined approach to overhead and operating costs, while selectively investing in key areas to support growth in target geographies and market sectors.

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 the business requires high volume processing of complex, business-event driven transactions. Through the combination of Microgen Aptitude (both in its native form and as the core technology platform for the Microgen Accounting Hub) and the extensive business domain knowledge of the division's consultants, MASD has extended its customer base into the treasury and retail banking sectors in addition to building on its success in the investment banking, insurance and digital media sectors. During 2011, MASD has been investing in the division's USA operation, a market that is proving to be comparatively more resilient in the economic environment, and also exploring new sectors and business opportunities where the high performance and functionality of the Microgen Aptitude technology can be deployed.

Revenue in MASD increased in the year by 28% to £21.8 million (2010: £17.0 million) and the division reported an operating profit of £4.2 million (2010: £2.6 million), an increase of 61%, while continuing to expense all research and development costs. As reported by other software companies who serve the financial services sector, MASD experienced the effect of the market deterioration in the second half of the year, with existing customers reducing their consultancy expenditure due to internal budget constraints and sales cycles extending. However, while the market remains unpredictable, the sales pipeline remains strong, with the majority of prospects having been deferred rather than lost or cancelled, and a number of these key sales opportunities have progressed subsequent to the year end.

Product developments during the year have further enhanced Microgen Aptitude's ability to deliver the market-leading levels of transaction processing performance increasingly required as the growth in transaction data volume continues and the challenge of "Big Data" is more widely recognised. (The Big Data term is currently applied to data sets whose size is beyond the ability of commonly used software tools to capture, manage, and process the data within an acceptable elapsed time.) Microgen Aptitude has been designed to address the challenges of processing exceptionally large volumes of data and complex transactions in a timescale to meet demanding operational and reporting requirements. This high performance together with the ability to integrate complex technology environments enables Microgen to successfully compete against some of the world's largest software vendors.

The continued investment in product development has also resulted in the recent launch of DBClarity Developer which, by using the same graphical user interface as Microgen Aptitude, enables business and IT users to collaboratively and rapidly define and implement SQL queries and procedures. In addition, recognising that our customers and prospects are faced with increasingly complex business processes within highly technical environments, Microgen has focused development of the core Microgen Aptitude technology on accelerating the solution design and implementation capability whilst enabling business users to be engaged in a collaborative and transparent development process. As a result a new product is anticipated to be launched in the summer to provide a 3 Dimensional Graphical User Interface that will further enhance the usability of the Microgen Aptitude technology. Microgen believes that this technology is highly innovative and will address many of the issues facing organisations seeking to automate complex, large and, often, enterprise wide processes. Microgen has filed patents in the UK and USA related to this new technology, further increasing the intellectual property protection associated with Microgen Aptitude.

MASD has continued to actively increase the proportion of software revenue and reduce the dependency on implementation consultancy. This strategy is consistent with ensuring the long term scalability of the business. Consequently, whilst the market deterioration is anticipated to result in revenue in the first half of 2012 being below that of the comparative period in 2011, the increase in the division's recurring software revenues pursuant to the above strategy provides resilience for the division's profitability.

Financial Systems Division ("FSD")

The Financial Systems Division has a well-established customer base with 86% (2010: 86%) of divisional revenue being derived from financial systems software. Recurring revenues account for 78% of the divisional revenue, providing good forward visibility.

The Financial Systems Division delivers:

- Wealth Management software and solutions;
- Banking software and solutions;
- Asset Management software and solutions; and
- Energy software and Application Management.

Benefitting from unusually strong consultancy demand and some one-off benefits, FSD's revenue increased by 2% in the year to £17.0 million (2010: £16.7 million). The division is highly profitable producing operating margins of 47% in 2011 (2010: 48%) with strong cash flow and high recurring revenues. The Board anticipates the market and business characteristics of FSD to continue in 2012 during which period it is anticipated consultancy demand will return to more normal levels.

Whilst FSD continues to review the future viability of a number of its smaller product offerings, 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.

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 service centres for support functions. This foundation provides a good platform from which to continue to leverage the success of Microgen Aptitude and its associated application products and, if appropriate, to integrate acquisition opportunities into the Financial Systems Division. Furthermore, the Group's significant recurring revenue base and predominantly annual licensing model provide resilience against the macro-economic environment and corresponding market uncertainty.

David Sherriff
Chief Executive Officer

The directors submit their annual report together with the audited financial statements for the Company, Microgen plc and the Group which includes its subsidiary undertakings, for the year ended 31 December 2011.

Results and Dividends

The results for the year are set out in the financial statements and notes that appear on pages 31 to 73. 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 (2010: 3.0 pence) in addition to the special dividend of 5.0 pence per share paid in December 2011. The final dividend will be paid on 11 May 2012, subject to shareholder approval, to shareholders on the register on 20 April 2012.

The ordinary dividends paid in 2011 totalled £2.6 million (2010: £2.1 million). In addition the special dividend of £4.1 million was paid in December 2011.

Principal Activities

The Company is a holding company, with the Group's principal activity being the provision of IT services and solutions, including software, managed services and consultancy, to the business community primarily in the financial services sector. 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 Group Finance Director's Report and Chief Executive Officer's Report on pages 2 to 6 which are incorporated into this report by reference. The Key Performance Indicators for the Group include revenue, adjusted operating profit and recurring revenue. In addition the Board also monitors consultants' utilisation and average daily fees rates achieved by its consultants and other performances 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 15 risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. The key business risks for the Group are set out in the table on pages 9 and 10.

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.

United Kingdom 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 UK 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 published on the website is accessible in many countries with differing legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 6 of this Annual Report includes a fair 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 9 and 10.

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 not grow or may decline	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 not grow or may potentially decline. 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 intensely 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 activity 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 complexityof 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 revenue from any one 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.	Senior 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 their 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 £8,000 (2010: £1,000). Included in the donations paid were donations of £2,500 to each of The Salvation Army, The Royal British Legion and MacMillan Cancer.

Substantial Shareholdings

In accordance with the Disclosure and Transparency Rules of the Financial Services Authority, as at 22 February 2012, 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	18.65%
Aberforth Partners LLP**	12,210,177	15.00%
P F and C C M Barbour***	6,865,327	8.43%
M R Ratcliffe	5,294,524	6.50%
Invesco Limited	4,584,349	5.63%
Highclere International Investors LLP	3,276,973	4.03%
L G Crisp and Mrs H Crisp	2,726,602	3.35%

* Included within Schroders plc's interest are 3,806,692 shares (4.68 per cent.) held by Mineworkers Pension Scheme, 2,788,605 shares (3.43 per cent.) held by British Coal Staff Superannuation Scheme and a further 2,400,000 shares (2.95 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 (7.56 per cent.) held by Aberforth Smaller Companies Trust plc; 1,607,900 shares (1.98 per cent) held by Aberforth Geared Income Trust LLP; 1,561,351 shares (1.92 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 26 to 28 of the Report of the Directors on Remuneration, would be payable following a change of control of Microgen provided that the base level valuations of one or more of the divisions have been exceeded. A resolution to amend the scheme is to be proposed at the forthcoming Annual General Meeting as further explained on pages 27 and 28.

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 increases 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 19 April 2011 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 12,138,815 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. No shares have been purchased under this authority since it was last renewed on 19 April 2011. 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.

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
P Davies
R T L Kanter
V Murray (appointed 1 September 2011)
P Whiting (appointed 2 February 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 Wood, who retires by rotation, will stand for re-election. The Board has previously announced that Mr Davies and Mr Kanter will not be standing for re-election at the 2012 Annual General Meeting and therefore intend to retire from the Board on 23 April 2012. Ms Murray OBE and Mr Whiting were appointed as non-executive directors with effect from 1 September 2011 and 2 February 2012 respectively and stand for re-election, as is required for directors at the Annual General Meeting following their appointment.

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 poll 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 24 February 2012 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.

In order to mitigate and manage interest rate risk the Group had in place up to September 2011 an interest rate hedge to manage exposure on borrowings. Interest rate swaps were used as cash flow hedges of future interest payments which had the effect of increasing the proportion of fixed interest debt. The loan of £1.6 million in relation to the Group's property at Fleet was repaid in September 2011.

All these treasury policies and procedures are regularly monitored and reviewed and conservatively managed. 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 45 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 £21,000 at 31 December 2011 (2010: £50,000).

At 31 December 2011, for the Group the average number of days of annual purchases represented by year end creditors was 9 days (31 December 2010: 6 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 all 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 15 to 20, 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 24 April 2012 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

24 February 2012

Statement of Compliance

The Group has applied the main principles set out in the UK Corporate Governance Code ("UKCGC") issued by the Financial Reporting Council in June 2010, as referred to in the UK Listing Authority Listing Rules ("Code") which is available online at www.frc.org.uk. A full statement of compliance with the Code's main principles of the Code of Best Practice is on pages 19 to 20. The Company has complied with the Code throughout the year ended 31 December 2011, other than the limited exceptions stated as follows:

UKCGC B.1.1 - Mr Davies was an employee of the Group in 1999 and, together with Mr Kanter, has 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 have advised the Company of their intention to resign from the Board with effect from the day of the 2012 Annual General Meeting.

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.

Mr Sherriff, a director since 1 August 2002, was appointed Chief Executive Officer on 19 April 2011 and it is the Group's policy that the roles and the 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. On 19 April 2011 Mr Bertram was appointed 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, Mr Davies, Mr Kanter, Ms Murray and Mr Whiting serve on the Nomination, Remuneration and Audit Committees. 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.

On 1 January 2012 Mr Ratcliffe was appointed as chairman of the Nomination Committee which also comprises Mr Bertram, Mr Davies, Mr Kanter, Ms Murray and Mr Whiting.

On 1 January 2012 Ms Murray was appointed as Chair of the Remuneration Committee and the Committee also comprises Mr Bertram, Mr Kanter, Mr Davies and Mr Whiting. The Report of the Directors on Remuneration appears on pages 21 to 28.

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 Mr Davies, Mr Kanter, Ms Murray and Mr Whiting. The Audit Committee 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 assess 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. The Chairman, Chief Executive Officer and Group Finance Director attend the meetings by invitation, however, the Audit Committee meets at least annually with the Company's external auditors without the other directors present. The auditors have unrestricted access to the Audit Committee.

Where the external auditors provide non audit services such work has been put out to tender as appropriate. The Board has reviewed the nature of the work and level of fees for these services and considers that this has not affected the auditors' objectivity and independence. The expenditure on non audit services is set out on page 52 .

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 2011	**11**	**5**	**7**	**1**
M R Ratcliffe	11	5*	7*	1
D J Sherriff	11	5*	7*	1*
P B Wood	11	5*	7*	1*
P Davies	11	5	7	1
R T L Kanter	11	5	7	1
P M Bertram	10	5	7	1
V Murray (appointed 1 September 2011)	4	1	3	0

* 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 the implementation 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 the 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 the shareholders' investment 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 line with the Turnbull Guidance and 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 risks faced by the Group are set out in the table on pages 9 and 10. The Group is committed to minimising 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 2011 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;

- 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 2011, 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.

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 of 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 FTSE 100 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 AGM 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 AGM. 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 AND AUDIT**	
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 and has not received a bonus in respect of either of the years ending 31 December 2011 or 31 December 2010. 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 2011 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.
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 AGM 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.

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 during the year ended 31 December 2011 comprised of Mr Bertram, Mr Davies, Mr Kanter and Ms Murray; with Ms Murray joining the Remuneration Committee with effect from 1 September 2011. During the year the Committee was chaired by Mr Davies with Ms Murray taking the chair on 1 January 2012. Mr Whiting joined the Committee on 2 February 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.

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, Division and personal performance during the financial period. Annual bonus targets for the participants for the financial period were 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. The Remuneration Committee has 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 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 introduced in 2006 ("PSP") the Remuneration Committee is allowed to grant conditional allocations of par value options to key executives with a maximum value of (normally) 100 per cent. of base salary per annum. Awards granted under the PSP will normally only vest after three 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 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. In addition shareholder approval is being sought at the forthcoming Annual General Meeting for further amendments to the scheme 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 Davies	5 September 2000	14 April 2012	3 months	3 months
R T L Kanter	16 September 1998	14 April 2012	3 months	3 months
P M Bertram	3 October 2006	14 April 2012	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 bonus payments, in addition to both the Microgen Value Enhancement and Realisation Bonus Scheme and the Senior Management Bonus Scheme, in the event of any change of control of Microgen up to a maximum of £100,000 and such 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.

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.

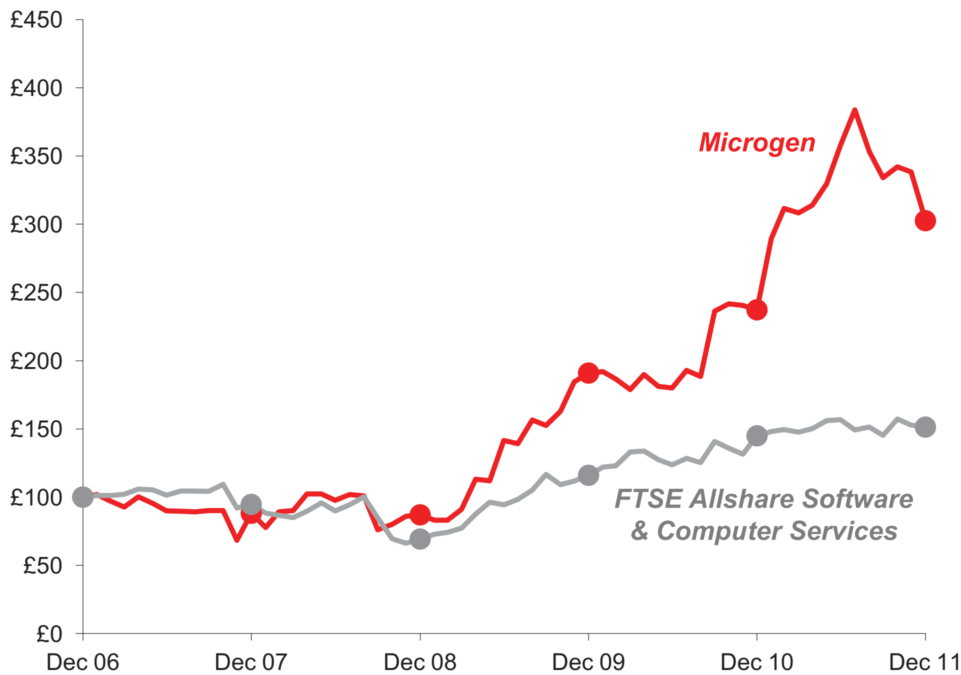
Pension Schemes

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 scheme also offers income protection for all employees, including the directors (but excluding the Chairman and the non-executive directors); in the case of permanent ill-health as well as lump sum and dependants' pension payable where death occurs in service or in retirement.

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 2011 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:

	2011 £	2010 £
Emoluments	938,045	939,566
Defined contribution pension contributions	22,058	22,626
	960,103	962,192

Directors	Basic salary/fees £	Variable reward £	Benefits in kind £	Pension £	2011 total £	2010 total £
M R Ratcliffe	223,750	–	1,048	–	224,798	252,296
D J Sherriff	222,208	105,000	4,708	13,008	344,924	345,716
P B Wood	173,033	64,000	3,465	9,050	249,548	241,680
R T L Kanter	42,000	–	–	–	42,000	40,000
P Davies	42,000	–	–	–	42,000	40,000
P M Bertram	44,500	–	–	–	44,500	42,500
V Murray	12,333	–	–	–	12,333	–
	759,824	169,000	9,221	22,058	960,103	962,192

Total benefits in kind of £9,221 (2010: £11,691) include private health care and fuel benefits. No director waived any emoluments.

Upon the Chairman's appointment to the board of RM plc on 1 June 2011, the terms and conditions of Mr Ratcliffe's appointment with Microgen were amended to reduce his time requirements and salary from £250,000 to £205,000 per annum.

Directors' Interests

The interest of the current directors as at 31 December 2011 and at 31 December 2010 in the share capital of the Company are as follows:

	Ordinary shares of 5p	
Current Directors	**31 Dec 2011**	**31 Dec 2010**
M R Ratcliffe	5,294,524	5,294,524
D J Sherriff	189,000	189,000
P B Wood	60,000	60,000
R T L Kanter	291,205	291,205
P Davies	96,160	96,160
P M Bertram	46,022	46,022
V Murray	–	–
P Whiting	–	–
	5,976,911	5,976,911

Directors' Interests (continued)

No changes to the directors' shareholdings or share options took place between 1 January 2012 and the date of this report.

No director had at any time during the year a material interest in any contract of significance to which the Company or any of its subsidiaries was a party.

Performance Share Plan ("PSP")

	Options over ordinary shares of 5p			
	31 Dec 2010	**Exercised**	**Lapsed**	**31 Dec 2011**
D J Sherriff	548,111	–	(4,730)	543,381
P B Wood	213,345	_	(4,165)	209,180

On 2 December 2011, 52,050 of Mr Sherriff's options and 45,835 of Mr Wood's options under the PSP vested, with 4,730 of Mr Sherriff's options and 4,165 of Mr Wood's options lapsing, following the approval of the Report of the Directors on Remuneration by shareholders at the Annual General Meeting on 19 April 2011.

Following the vesting of the above PSP options, all of Mr Sherriff's and Mr Wood's PSP options held at 31 December 2011 have now 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.

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 2011				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 2010	**Exercised**	**Lapsed**	**31 Dec 2011**
M R Ratcliffe	1,000,000	–	–	1,000,000
D J Sherriff	300,000	(75,000)	–	225,000

On 7 September 2011 Mr Sherriff exercised 75,000 share options (50,000 share options with an exercise price of 87.5 pence per share and 25,000 share options with an exercise price of 42.5 pence) and subsequently sold the resulting shares at 154 pence per share.

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

Share Options (continued)

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 2011				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.

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 2011 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 30 December 2011 was 129.25 pence and the range during the year was 102.5 pence to 181.0 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 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 market capitalisation of the Group has increased by £68.2 million to £105.2 million as at 31 December 2011. In addition, during this same period £28.2 million has been returned to shareholders through a progressive dividend policy, special dividends and tender offers. The cash returned is equivalent to over 75% of the Group's market capitalisation of £37.0 million at the time of the introduction of VERBS.

VERBS is structured to incentivise management to enhance and ultimately realise shareholder value. A cash payment 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.

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

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

full or partial disposal or by cash from operating profits being paid back to shareholders. 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 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%**

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.

In 2010 the Board approved two amendments to VERBS with changes considered by the Remuneration Committee to be beneficial to shareholders. The changes were as follows:-

- 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; and
- 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.

Proposed amendments to the scheme

Following the increase in shareholder value since the introduction of VERBS and the resulting potential awards payable if a realisation event occurs, shareholder approval is being sought at the forthcoming Annual General Meeting for further amendments to VERBS which are considered by the Remuneration Committee to be beneficial to shareholders. The proposed amendments are as follows:-

1. Flexibility to settle awards using shares

   The VERBS rules currently provide for awards to be settled in cash only.

   It is now proposed that 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 Microgen Value Enhancement and Realisation Bonus Scheme ("VERBS") (continued)

Proposed amendments to the scheme (continued)

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.

2. Reduction in maximum participation from 25% to 20% for realised gains above a value equivalent to 140 pence

   The current VERBS rules provide that directors / employees' maximum participation in the value enhancement above a base level valuation of a division following a realisation event is 25%. The aggregate of the initial base level valuations of the Group's three divisions (one of which was sold in 2009) was set in 2008 at £52 million excluding the Group's net cash, freehold property and the investments it held at the time. As detailed above this was equivalent to an aggregate base level valuation in excess of 70 pence per share which was approximately 95% higher than the closing mid-market share price of 36 pence on 13 October 2008, the day prior to the date on which VERBS was initially announced.

   It is now proposed that 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 140 pence per share as at 31 December 2011 including the Group's cash and freehold property held at that date.

Illustration of potential award under VERBS

At 30 December 2011 the closing mid-market share price was 129.25 pence representing a total shareholder return of 273% 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 £105.2 million on 31 December 2011. In addition to the £68.2 million increase in the Group's market capitalisation during this period a total of £28.2 million has been returned to shareholders by way of tender offer and ordinary and special dividends. If a change of control of Microgen plc had completed at 30 December 2011 at the closing mid-market share price on that date the maximum potential award would have been approximately £11 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.

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

24 February 2012

Independent Auditors' Report to the Members of Microgen plc

We have audited the financial statements of Microgen plc for the year ended 31 December 2011 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 7 and 8, 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 2011 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 2011 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 15 to 20 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 10, 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
24 February 2012

Consolidated Income Statement *for the year ended 31 December 2011*

	Note	Year ended 31 Dec 2011 Before intangible amortisation	Intangible amortisation	Total	Year ended 31 Dec 2010 Before intangible amortisation	Intangible amortisation	Total
		£000	£000	£000	£000	£000	£000
Revenue	1	38,776	–	**38,776**	33,669	–	33,669
Operating costs	1, 2	(29,177)	(117)	**(29,294)**	(25,576)	(255)	(25,831)
Operating profit	2	9,599	(117)	**9,482**	8,093	(255)	7,838
Finance income	4	258	–	**258**	140	–	140
Finance costs	4	(142)	–	**(142)**	(126)	–	(126)
		116	–	**116**	14	–	14
Profit before income tax		9,715	(117)	**9,598**	8,107	(255)	7,852
Income tax expense	5			**(2,348)**			(1,341)
Profit for the year				**7,250**			6,511
Earnings per share							
Basic	6			**8.9p**			7.7p
Diluted	6			**8.7p**			7.5p

	Note	Pence per share	£000	Pence per share	£000
Ordinary Dividends					
Paid	7	3.2p	2,575	2.4p	2,084
Proposed	7	2.2p	1,791	2.1p	1,701
Special Dividend					
Paid	7	5.0p	4,070	–	–

The accounting policies and notes on pages 37 to 73 are an integral part of these consolidated financial statements.

Consolidated Statement

Of Comprehensive Income *for the year ended 31 December 2011*

	Note	Group Year ended 31 Dec 2011 £000	Group Year ended 31 Dec 2010 £000
Profit for the year		**7,250**	6,511
Other comprehensive income			
Cash flow hedges, net of tax	21	**(367)**	(36)
Currency translation difference		**(142)**	95
Other comprehensive income for the year, net of tax		**(509)**	59
Total comprehensive income for the year		**6,741**	6,570

The accounting policies and notes on pages 37 to 73 are an integral part of these consolidated financial statements.

Balance Sheets *at 31 December 2011*

Company registered number: 01602662

	Note	Group As at 31 Dec 2011	Group As at 31 Dec 2010	Company As at 31 Dec 2011	Company As at 31 Dec 2010
		£000	£000	£000	£000
ASSETS					
Non-current assets					
Property, plant and equipment	10	**5,521**	5,157	**–**	–
Goodwill	8	**41,774**	41,774	**–**	–
Intangible assets	9	**118**	235	**–**	–
Investments in subsidiaries	11	**–**	–	**40,691**	40,576
Deferred income tax assets	12	**1,324**	1,402	**–**	–
		48,737	48,568	**40,691**	40,576
Current assets					
Trade and other receivables	13	**5,611**	5,971	**2,011**	20,678
Financial assets – derivative financial instruments	18	**–**	56	**–**	–
Cash and cash equivalents	14	**26,971**	25,412	**23,657**	21,025
		32,582	31,439	**25,668**	41,703
Total assets		**81,319**	80,007	**66,359**	82,279
LIABILITIES					
Current liabilities					
Financial liabilities					
– borrowings associated with property	15	**–**	(370)	**–**	–
– derivative financial instruments	18	**(353)**	(115)	**–**	–
Trade and other payables	16	**(19,981)**	(18,205)	**(12,410)**	(22,291)
Current income tax liabilities		**(768)**	(408)	**(52)**	–
Provisions for other liabilities and charges	17	**(107)**	(150)	**–**	–
		(21,209)	(19,248)	**(12,462)**	(22,291)
Net current assets		**11,373**	12,191	**13,206**	19,412
Non-current liabilities					
Financial liabilities – borrowings associated with property	15	**–**	(1,482)	**–**	–
Provisions for other liabilities and charges	17	**(135)**	(139)	**–**	–
		(135)	(1,621)	**–**	–
NET ASSETS		**59,975**	59,138	**53,897**	59,988
SHAREHOLDERS' EQUITY					
Share capital	19	**4,069**	4,041	**4,069**	4,041
Share premium account	20	**11,842**	11,531	**11,842**	11,531
Capital redemption reserve	21	**1,146**	1,146	**1,146**	1,146
Other reserves	21	**36,619**	37,066	**20,177**	20,257
Retained earnings	22	**6,299**	5,354	**16,663**	23,013
TOTAL EQUITY		**59,975**	59,138	**53,897**	59,988

The accounting policies and notes on pages 37 to 73 are an integral part of these consolidated financial statements.

The financial statements on pages 37 to 73 were authorised for issue by the Board of Directors on 24 February 2012 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 2011

	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
Group							
Balance at 1 January 2010		4,344	11,285	6,637	804	37,293	**60,363**
Profit for the year		–	–	6,511	–	–	**6,511**
Cash flow hedges							
– net fair value losses in the year	21	–	–	–	–	(36)	**(36)**
Exchange rate adjustments	22	–	–	95	–	–	**95**
Total comprehensive income for the year		–	–	6,606	–	(36)	**6,570**
Shares issued under share option schemes	19, 20	39	246	191	–	(191)	**285**
Share options – value of employee service	22	–	–	215	–	–	**215**
Deferred tax on financial instruments	22	–	–	(18)	–	–	**(18)**
Corporation tax on share options	22	–	–	93	–	–	**93**
Shares repurchased and cancelled	19, 22	(342)	–	(6,288)	342	–	**(6,288)**
Share options issued from Microgen Employee Share Participation Scheme Trust	22	–	–	2	–	–	**2**
Dividends to equity holders of the company	7	–	–	(2,084)	–	–	**(2,084)**
Total Contributions by and distributions to owners of the company recognised directly in equity		(303)	246	(7,889)	342	(191)	**(7,795)**
Balance at 31 December 2010		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	19, 20	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**

The accounting policies and notes on pages 37 to 73 are an integral part of these consolidated financial statements.

Company Statement
Of Changes in Shareholders' Equity

for the year ended 31 December 2011

	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 2010		4,344	11,285	30,741	804	20,448	**67,622**
Comprehensive income							
Profit for the year		–	–	78	–	–	**78**
Total comprehensive income for the year		–	–	78	–	–	**78**
Shares issued under share option schemes	19, 20	39	246	191	–	(191)	**285**
Share options – value of employee service	22	–	–	373	–	–	**373**
Shares repurchased and cancelled	19, 22	(342)	–	(6,288)	342	–	**(6,288)**
Share options issued from Microgen Employee Share Participation Scheme Trust	22	–	–	2	–	–	**2**
Dividends to equity holders of the company	7	–	–	(2,084)	–	–	**(2,084)**
Total Contributions by and distributions to owners of the company recognised directly in equity		(303)	246	(7,806)	342	(191)	**(7,712)**
Balance at 31 December 2010		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	19, 20	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**

The accounting policies and notes on pages 37 to 73 are an integral part of these consolidated financial statements.

Statements

Of Cash Flow *for the year ended 31 December 2011*

	Note	Group As at 31 Dec 2011 £000	Group As at 31 Dec 2010 £000	Company As at 31 Dec 2011 £000	Company As at 31 Dec 2010 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	23	**12,542**	11,348	**(695)**	(136)
Interest paid		**(156)**	(94)	**–**	–
Income tax paid		**(1,758)**	(1,506)	**(50)**	(4)
Net cash flows generated from/(used in) operating activities		**10,628**	9,748	**(745)**	(140)
Cash flows from investing activities					
Proceeds from sale of investments	11	**–**	336	**–**	336
Purchase of property, plant and equipment	10	**(1,171)**	(586)	**–**	–
Interest received		**186**	140	**144**	82
Net cash (used in)/ generated from investing activities		**(985)**	(110)	**144**	418
Cash flows from financing activities					
Net proceeds from issuance of ordinary shares		**395**	285	**395**	285
Dividends paid to company's shareholders	7	**(6,645)**	(2,084)	**(6,645)**	(2,084)
Repayment of mortgage		**(1,852)**	(370)	**–**	–
Amounts borrowed from group undertakings		**–**	–	**9,483**	9,116
Purchase of own shares		**–**	(6,288)	**–**	(6,288)
Net cash (used in)/generated from financing activities		**(8,102)**	(8,457)	**3,233**	1,029
Net increase in cash and cash equivalents		**1,541**	1,181	**2,632**	1,307
Cash, cash equivalents and bank overdrafts at beginning of year	14	**25,412**	24,178	**21,025**	19,718
Exchange rate gains on cash and cash equivalents		**18**	53	**–**	–
Cash and cash equivalents at end of year	14	**26,971**	25,412	**23,657**	21,025

The accounting policies and notes on pages 37 to 73 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 24 February 2012.

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 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 48.

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

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2011 that has had a material impact on the Group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 which have not been early adopted.

- IFRS 9 Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

Accounting Policies (continued)

- IFRS 13 Fair Value Measurement, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards with IFRSs on US GAAP. The directors do not anticipate that IFRS 13 will have a material impact on the financial statements of the Group and the Company. The directors intend to adopt IFRS 13 no later than accounting period beginning on or after 1 January 2012, subject to endorsement by the EU.

There are no other IFRSs or IFIC interpretations that are not yet effective that would be expected to have a material impact on 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 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.

Revenue recognition

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

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

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

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

Software based activity
Software licences
The Group licences its software on an 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. In assessing whether the collection of the debt is likely, any deferred payments for Licence Fees are recognised only if they are to be invoiced within 90 days of the period end and such invoice is payable within 30 days of the invoice date.

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

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

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

Revenue recognition (continued)

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

The primary segmental reporting is by business sector, being Microgen Aptitude Solutions and Financial Systems.

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.

Exceptional items

Items that are both material in size and unusual and infrequent in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance.

Leasing

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

Property, plant and equipment

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

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

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

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

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

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

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

In assessing the IAS 38 criteria it is considered that 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.

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.

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

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

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

Investments

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

Cash and cash equivalents

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

Share-based payments

The Group operates share-based compensation plans that are equity settled. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Group income statement over the vesting period with a corresponding adjustment to equity.

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.

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

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

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

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

Foreign currency

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

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

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

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

Pensions

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

Current and deferred income tax

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

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

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

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

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

Trade receivables

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

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

Trade payables

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

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 the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective 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, currency options and interest rate swaps. 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 2011 was 6 months (2010: 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.

	2011 **£000**	2010 £000
Polish Zloty gain	**46**	39
Euro loss	**(22)**	(22)
South African Rand loss	**(80)**	(65)
US Dollar loss	**(61)**	(9)
	(117)	(57)

(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.

	2011 **£000**	2010 £000
Increase in interest receivable on cash balances	**267**	203

(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.

(c) Credit risk (continued)

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 Dec 2011 Balance £000	31 Dec 2010 Balance £000
Bank A	A2	12,469	12,585
Bank B	A1	11,188	9,584
Bank C	Aa2	2,016	2,008
		25,673	24,177
Customer A	Baa1	848	1,143
Customer B	A2	691	751
Customer C	Aa3	387	671
		1,926	2,565

(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 cashflows 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 2011	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Derivative financial instruments	353	–	–
Trade and other payables	19,981	–	–
	20,334	–	–

At 31 December 2010	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Borrowings	370	370	1,112
Derivative financial instruments	115	–	–
Trade and other payables	18,205	–	–
	18,690	370	1,112

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 2011	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**
Forward foreign exchange contracts			
– cash flow hedges			
Outflow	(3,350)	–	–
Inflow	3,409	–	–
	59	–	–

At 31 December 2010	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 £000
Forward foreign exchange contracts			
– cash flow hedges			
Outflow	(2,505)	–	–
Inflow	2,527	–	–
Interest swap			
– cash flow hedges			
Outflow	(70)	(55)	(74)
Inflow	26	20	27
Inflow	(22)	(35)	(47)

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. In the case of loans due after more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the group for similar financial instruments.

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 2010 and 2011 and therefore is ungeared. The only borrowings in 2010 were in respect of the mortgage. This was repaid in 2011.

Capital risk management (continued)

During the period the Group complied with the externally imposed capital requirements to which it is subject relating to the Mortgage on the property, interest swap and foreign currency contracts. 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 2010 or 2011 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 goodwill valuation based on various scenarios and each of these scenarios have different growth rate assumptions. The growth rate assumptions are in relation to periods covered by Board approved plans.

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

(c) Impairment of investments

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

(d) Taxation

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

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

1. **Segmental Information**

Business segments

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

The segmental analysis is split into 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/(loss). 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 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 intangibles 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**

Year ended 31 December 2010	**MASD £000**	**FSD £000**	**Group £000**	**Total £000**
Revenue	16,995	16,674	–	**33,669**
Operating costs	(14,386)	(8,590)	–	**(22,976)**
Operating profit before Group overheads	2,609	8,084	–	**10,693**
Unallocated Group overheads			(2,600)	**(2,600)**
Operating profit before intangible amortisation				**8,093**
Intangible amortisation	–	(255)	–	**(255)**
Operating profit/(loss)	**2,609**	**7,829**	**(2,600)**	**7,838**
Net finance income				**14**
Profit before tax				**7,852**
Income tax expense				**(1,341)**
Profit for the year				**6,511**

(b) Other information

	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 (note 13)	**–**	**8**	**–**	**8**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2010				
Capital expenditure				
– property, plant and equipment (note 10)	342	141	103	586
Depreciation (note 10)	(289)	(68)	(292)	(649)
Amortisation of intangible assets (note 9)	–	(255)	–	(255)
Reversal of trade receivables impairment (note 13)	–	17	–	17

(c) Balance sheet

	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**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2010				
Consolidated total assets	19,534	32,829	27,644	80,007
Consolidated total liabilities	(5,144)	(11,889)	(3,836)	(20,869)
	14,390	20,940	23,808	59,138

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

(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 2011 £000	Year ended 31 Dec 2010 £000	**Year ended 31 Dec 2011 £000**	Year ended 31 Dec 2010 £000
United Kingdom and Ireland	**30,876**	26,848	**22,434**	17,398
Rest of World	**7,900**	6,821	**16,342**	16,271
	38,776	33,669	**38,776**	33,669

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

	Carrying amount of segment assets		Capital expenditure	
	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000	**Year ended 31 Dec 2011 £000**	Year ended 31 Dec 2010 £000
United Kingdom and Ireland	**76,277**	75,481	**515**	313
Rest of World	**5,042**	4,526	**656**	273
	81,319	80,007	**1,171**	586

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 2011 £000	Year ended 31 Dec 2010 £000
Employee benefit expense (note 3)	**20,859**	19,076
Depreciation (note 10)	**739**	649
Intangibles amortisation (note 9)	**117**	255
Other operating costs	**7,579**	5,851
	29,294	25,831

Profit from operations has been arrived at after charging/(crediting):

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Net foreign exchange losses	**42**	27
Research, development and support costs – MASD	**3,187**	2,765
Research, development and support costs – FSD	**2,248**	2,086
Depreciation of property, plant and equipment (note 10)	**739**	649
Amortisation of intangible assets (note 9)	**117**	255
Operating lease rentals payable:		
– plant and machinery	**32**	38
– other	**674**	501
Repairs and maintenance expenditure on property, plant and equipment	**269**	180
Provision for receivables impairment (note 13)	**(8)**	(17)

2. Operating profit (continued)

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

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Fees payable to Company auditor for the audit of the Parent Company and consolidated financial statements	**67**	65
Fees payable to the Company's auditor and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	**76**	65
– corporation and sales tax services	**84**	186
– overseas secondment services	**201**	260
	428	576

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 15 to 20 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 2011 £000	Group Year ended 31 Dec 2010 £000
Employee benefit expense during the year including contractors		
Wages and salaries	**18,843**	17,200
Social security costs	**1,483**	1,290
Other pension costs (note 27)	**418**	371
Share based payments (note 26)	**115**	215
	20,859	19,076

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

	Group Year ended 31 Dec 2011 Number	Group Year ended 31 Dec 2010 Number
By location:		
United Kingdom and Ireland	**156**	152
Rest of World	**112**	108
	268	260

The average monthly number of employees includes 14 contractors (2010: 18)

Headcount at 31 December 2011 was 273 (2010: 264) including 15 (2010: 21) contractors.

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Key management compensation:		
Salaries and short-term employee benefits	**2,558**	2,712
Post employment benefits	**97**	143
Share based payments	**101**	169
	2,756	3,024

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

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Directors		
Aggregate emoluments	**938**	939
Company contributions to money purchase pension scheme	**22**	23
	960	962

Average monthly number of employees and directors in key management were 14 (2010: 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 21 to 28.

4. Net finance income

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Finance cost		
Interest payable on bank borrowings	**(49)**	(92)
Interest in respect of interest swap	**(83)**	(34)
Interest – other	**(10)**	–
	(142)	(126)
Finance income		
Interest on bank deposits	**185**	117
Interest in respect of interest swap	**72**	–
Interest on Corporation Tax	**1**	23
	258	140
Net finance income	**116**	14

5. Income tax expense

Analysis of charge in the year	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Current tax:		
– current year charge	**(2,269)**	(1,526)
– prior year credit	**75**	160
Total current tax	**(2,194)**	(1,366)
Deferred tax (note 12):		
– current year charge	**(165)**	(11)
– prior year credit	**11**	36
Total deferred tax	**(154)**	25
Income tax expense	**(2,348)**	(1,341)

UK corporation tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Finance Act 2011, which was substantively enacted on 5 July 2011, includes legislation reducing the main UK corporation tax rate from 28% to 26%, effective from 1 April 2011. A further reduction to 25% was also substantively enacted on this date and will be effective from 1 April 2012. The deferred tax balances have been re-measured to reflect this reduction.

Further reductions to the UK corporation tax rate were announced in the March 2011 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 23% by 1 April 2014. The effect on the Company of these proposed changes will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantively enacted.

The tax for the year is lower (2010: lower) than the standard rate of corporation tax in the UK 26.5% (2010: 28%). The differences are explained below:

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Profit on ordinary activities before tax	**9,598**	7,852
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	**(2,543)**	(2,199)
Effects of:		
Adjustment to tax in respect of prior period	**86**	196
Adjustment in respect of foreign tax rates	**39**	24
Foreign exchange (gains)/losses on intercompany balances	**(126)**	90
Research and development tax credit	**53**	–
Expenses not deductible for tax purposes		
Share based payment expenses	**(1)**	13
Other	**(15)**	(101)
Changes in UK Corporation Tax Rates	**(97)**	(30)
Recognition of tax losses	**256**	666
Total taxation	**(2,348)**	(1,341)

The total tax charge of £2,348,000 (2010: £1,341,000) represents 24.5% (2010: 17.1%) of the Group profit before tax of £9,598,000 (2010: £7,852,000).

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 £2,687,000 represents 28.0% (2010: 27.4%), 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, excluding in 2010 the 60,000 shares held by the Microgen Employee Share Participation Scheme Trust, which are treated as cancelled for dividend purposes. There are no shares held in the Trust at 31 December 2011.

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 2011			Year ended 31 Dec 2010		
	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	7,250	81,144	8.9	6,511	84,606	7.7
Effect of dilutive securities:						
– share options	–	2,205	(0.2)	–	2,014	(0.2)
Diluted EPS	7,250	83,349	8.7	6,511	86,620	7.5

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 28.0% (2010: 27.4%).

	Year ended 31 Dec 2011		Year ended 31 Dec 2010	
	Basic EPS pence	**Diluted EPS pence**	Basic EPS pence	Diluted EPS pence
Earnings per share	**8.9**	**8.7**	7.7	7.5
Amortisation of intangibles net of tax	**0.1**	**0.1**	0.2	0.2
Prior years' tax charge	**(0.1)**	**(0.1)**	(0.2)	(0.2)
Tax losses recognised	**(0.3)**	**(0.3)**	(0.7)	(0.7)
Adjusted earnings per share	**8.6**	**8.4**	7.0	6.8

6. Earnings per share (continued)

	Year ended 31 Dec 2011 £000	Year ended 31 Dec 2010 £000
Profit on ordinary activities before tax and intangibles amortisation	**9,715**	8,107
Tax charge at a rate of 28.0% (2010: 27.4%)	**(2,720)**	(2,221)
Adjusted profit on ordinary activities after tax	**6,995**	5,886
Prior years' tax charge	**86**	196
Share options	**(1)**	13
Amortisation of intangibles net of tax	**(86)**	(185)
Recognition of tax losses	**256**	631
Change in UK Corporation Tax Rates	**–**	(30)
Profit on ordinary activities after tax	**7,250**	6,511

7. Dividends

	2011 pence per share	2010 pence per share	**2011 £000**	2010 £000
Dividends paid:				
Interim dividend	**1.1**	0.9	**874**	781
Final dividend (prior year)	**2.1**	1.5	**1,701**	1,303
Special dividend	**5.0**	–	**4,070**	–
	8.2	2.4	**6,645**	2,084
Proposed but not recognised as a liability:				
Final dividend (current year)	**2.2**	2.1	**1,791**	1,701

The proposed final dividend was approved by the Board on 24 February 2012 but was not included as a liability as at 31 December 2011, in accordance with IAS 10 'Events after the Balance Sheet date'. If approved by shareholders at the Annual General Meeting this final dividend will be payable on 11 May 2012 to shareholders on the register at the close of business on 20 April 2012.

8. Goodwill

	31 Dec 2011 £000	31 Dec 2010 £000
Cost		
At 1 January and 31 December	**59,709**	59,709
Accumulated impairment		
At 1 January and 31 December	**(17,935)**	(17,935)
Net book amount	**41,774**	41,774

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

	Microgen Aptitude Solutions £000	Financial Systems £000	Total £000
At 1 January and 31 December 2011	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 CGU 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 4 years following the approved 2012 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% (2010: 2.25%). The conversion to cash ratio is assumed to be 74% based on the current UK corporation tax rate. 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% (2010: 9.8%).

A movement of 5% in any of the assumptions would not result in an impairment. It is possible that outcomes within the forthcoming financial years different to the key assumptions could require a material adjustment to the carrying value of the Group's goodwill.

9. Intangible assets

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
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**

9. Intangible assets (continued)

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Net book value			
At 1 January 2010	**400**	**90**	**490**
Cost			
At 1 January 2010 and 31 December 2010	**876**	**1,329**	**2,205**
Accumulated amortisation and impairment			
At 1 January 2010	476	1,239	1,715
Charge for the year	165	90	255
At 31 December 2010	**641**	**1,329**	**1,970**
Net book amount			
At 31 December 2010	**235**	**–**	**235**

The Company held no intangible assets during the year (2010: 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 2011 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 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 3)	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**

	Freehold land and buildings £000	Leasehold improv-ements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group					
Net book value					
At 1 January 2010	**4,250**	**152**	**650**	**172**	**5,224**
Cost					
At 1 January 2010	4,573	546	3,533	416	9,068
Additions	–	6	575	5	586
Disposals	–	(77)	(1,034)	(209)	(1,320)
Exchange movements	–	–	79	27	106
At 31 December 2010	**4,573**	**475**	**3,153**	**239**	**8,440**
Accumulated depreciation					
At 1 January 2010	323	394	2,883	244	3,844
Charge for the year	70	100	469	10	649
Disposals	–	(77)	(1,034)	(209)	(1,320)
Exchange movements	–	–	83	27	110
At 31 December 2010	**393**	**417**	**2,401**	**72**	**3,283**
Net book amount					
At 31 December 2010	**4,180**	**58**	**752**	**167**	**5,157**

The Company held no property, plant and equipment in the year (2010 nil).

11. Investments in subsidiaries

The Group did not hold any investments in 2011 having completed the disposal of its investment in Scisys plc in 2010.

	2011 Investment £000	2010 Investments £000
Company		
Cost		
At 1 January	**53,731**	53,694
Share based payments – share options granted to employees of subsidiaries	**115**	373
Disposals	**–**	(336)
At 31 December	**53,846**	53,731
Impairment		
At 31 December	**13,155**	13,155
Net book amount		
At 31 December	**40,691**	40,576

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.

11. Investments in subsidiaries (continued)

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	Development, 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 25.0% (2010: 27.25%).

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 2010	283	351	255	461	1,350
Credit/(charge) to income statement for the year (note 5)	11	89	35	(110)	25
Charge to equity (note 22)	–	(18)	–	–	(18)
Exchange differences	–	45	–	–	45
At 31 December 2010	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**

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 £8,518,000 (2010: £10,172,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £822,000 (2010: £1,284,000) of such losses which is the maximum the Group anticipates being able to utlilise in the year ending 31 December 2012. No deferred tax has been recognised in respect of the remaining £7,696,000 (2010: £8,888,000) 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 2011 (2010: nil).

Included in the deferred tax asset above, is an amount of £654,000 which is expected to be utilised in the next twelve months.

13. Trade and other receivables

	Group 31 Dec 2011 £000	Group 31 Dec 2010 £000	**Company 31 Dec 2011 £000**	Company 31 Dec 2010 £000
Trade receivables	**5,146**	5,321	**–**	–
Less: provision for impairment of receivables	**(64)**	(78)	**–**	–
Trade receivables – net	**5,082**	5,243	**–**	–
Amounts owed by group undertakings	**–**	–	**1,876**	20,497
Other receivables	**42**	66	**62**	60
Prepayments and accrued income	**487**	662	**73**	121
	5,611	5,971	**2,011**	20,678

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

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

Within the trade receivables balance of £5,146,000 (2010: £5,321,000) there are balances totalling £1,356,000 (2010: £1,495,000) which, at 31 December 2011, were overdue for payment. Of this balance £1,334,000 (2010: £1,478,000) has been collected at 24 February 2012 (2010: 23 February 2011).

	Trade receivables	
The ageing of the trade receivables is as follows:	**31 Dec 2011 £000**	312010 £000
Not past due	**3,790**	3,826
Past due		
Less than one month overdue	**1,295**	1,484
One to two months overdue	**43**	7
Two to three months overdue	**17**	1
More than three months overdue	**1**	3
At 31 December	**5,146**	5,321

The Company had no trade receivables in either year.

13. Trade and other receivables (continued)

Trade and other receivables are denominated in the following currencies:

	Group 31 Dec 2011 £000	Group 31 Dec 2010 £000	Company 31 Dec 2011 £000	Company 31 Dec 2010 £000
Sterling	**5,154**	5,494	**2,011**	20,678
SA Rand	**9**	176	**–**	–
US Dollars	**401**	289	**–**	–
Other	**47**	12	**–**	–
	5,611	5,971	**2,011**	20,678

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

	Group 31 Dec 2011 £000	Group 31 Dec 2010 £000
At 1 January	**78**	112
Receivables written off as uncollectable	**(6)**	(17)
Unused provisions reversed	**(8)**	(17)
At 31 December	**64**	78

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 (2010: nil).

14. Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group 31 Dec 2011 £000	Group 31 Dec 2010 £000	Company 31 Dec 2011 £000	Company 31 Dec 2010 £000
UK Pounds Sterling	**25,674**	24,177	**23,657**	21,025
South African Rand	**509**	896	**–**	–
United States Dollar	**390**	85	**–**	–
Polish Zloty	**398**	253	**–**	–
Other	**–**	1	**–**	–
Cash at bank and in hand	**26,971**	25,412	**23,657**	21,025

The effective interest rate on short term deposits was 0.44% (2010: 0.35%).

15. Financial liabilities – borrowings associated with property

	Group 31 Dec 2011 £000	Group 31 Dec 2010 £000
Bank loan	**–**	1,852
The borrowings are repayable as follows:		
Within one year	**–**	370
In the second year	**–**	370
In the third to fifth years inclusive	**–**	1,112
	–	1,852
Less: Amount due for settlement within 12 months (shown under current liabilities)	**–**	(370)
Amount due for settlement after 12 months	**–**	1,482

The bank loan was secured by a fixed charge over the Group's freehold property in Fleet. The loan was raised on 25 November 2005; capital repayments commenced on 25 February 2007 and was to continue until 25 November 2015. The loan was denominated in Pound Sterling and carried interest at LIBOR plus 0.8%, this was also the effective interest rate. The Group entered into an interest swap on 6 February 2009, which effectively fixed the interest rate at 3.3% plus 0.8%.

The bank loan was repaid on 29 September 2011.

The Company has nil borrowings at 31 December 2011 (2010: nil).

16. Trade and other payables

	Group 31 Dec 2011 £000	Group 31 Dec 2010 £000	Company 31 Dec 2011 £000	Company 31 Dec 2010 £000
Trade payables	**247**	132	**21**	50
Amounts owed to group undertakings	**–**	–	**12,364**	22,241
Other tax and social security payable	**1,097**	1,175	**–**	–
Other payables	**253**	157	**25**	–
Accruals	**3,345**	2,622	**–**	–
Deferred income	**15,039**	14,119	**–**	–
	19,981	18,205	**12,410**	22,291

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

17. Provisions for other liabilities and charges

	Property provision	
	31 Dec 2011	31 Dec 2010
	£000	£000
Group		
At 1 January	**289**	222
Charged to income statement	**55**	66
Utilised	**(93)**	–
Reclassified to accruals	**–**	(4)
Foreign exchange	**(9)**	5
At 31 December	**242**	289

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

	Property provision	
	31 Dec 2011	31 Dec 2010
	£000	£000
Current	**107**	150
Non-current	**135**	139
	242	289

The provision at 31 December 2011 relates solely to the cost of dilapidations in respect of its occupied leasehold premises.

Of the non-current provision, £135,000 is expected to unwind within 2 to 5 years (2010: £139,000).

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

18. 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 2011		31 Dec 2010	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Forward foreign exchange contracts – cash flow hedges	–	353	56	43
Interest rate swaps – cash flow hedges	–	–	–	72
	–	353	56	115

The company has no derivative financial instruments (2010: none).

All financial instruments disclosed are current.

Currency derivatives

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

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

	31 Dec 2011 £000	31 Dec 2010 £000
Forward foreign exchange contracts – Polish Zloty	3,350	2,505

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

At 31 December 2011, the fair value of the Group's currency derivatives is estimated to be a liability of approximately £353,000 (2010: Asset £13,000), comprising £nil assets (2010: £56,000) and £353,000 liabilities (2010: £43,000), 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 (2010: 12 months).

A loss of £69,000 (2010: Gain £56,000) has been transferred to the income statement in respect of contracts which have matured during the period.

Interest rate swap

The Group used an interest rate swap to manage its exposure to interest rate movements on its bank mortgage borrowings by swapping those borrowings from floating rate to fixed rate. The loan was repaid and the interest rate swap cancelled on 29 September 2011. The notional principal amount of the outstanding interest rate swap contracts at 31 December 2010 was £1,852,000 and covered the interest rate exposure up to 27 November 2015.

The fair value of the swap as at 31 December 2010 was £72,000. This amount was based on discounted expected future cash flows. The movement of £72,000 (2010: £34,000) has been recognised in the income statement.

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. The carrying amounts of short-term borrowings approximate to book value.

		31 Dec 2011		31 Dec 2010	
	Note	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Group					
Cash at bank and in hand	14	**26,971**	**26,971**	25,412	25,412
Long-term borrowings	15	**–**	**–**	(1,852)	(1,925)

		31 Dec 2011		31 Dec 2010	
	Note	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Company					
Cash at bank and in hand	14	**23,657**	**23,657**	21,025	21,025

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

Neither the Group or Company defaulted on any loans during the period. In addition the Group or Company did not breach the terms of any loan agreements during the year. The only external borrowings held related to the loan on the Fleet premises, against which a fixed charge was held. This was repaid on 29 September 2011.

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	**2011 £000**	2010 £000
Trade receivables		
Banks and financial institutions	**2,922**	2,664
Other corporates	**868**	1,162
Total current trade receivables	**3,790**	3,826
Overdue trade receivables	**1,356**	1,495
Total trade receivables	**5,146**	5,321

Of the total receivables past due at 31 December 2011 of £1,356,000 (2010 £1,495,000) a total of £1,334,000 (2010 £1,478,000) has been collected by 24 February 2012 (2010: 23 February 2011).

Cash at bank and short-term bank deposits	**Current Rating (Moody's)**	**2011 £000**	2010 £000
	Aa2	**2,017**	2,008
	Aa3	**–**	22,169
	A1	**11,976**	338
	A2	**12,469**	1
	A3	**509**	896
		26,971	25,412

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

19. Share capital

Group and company	31 Dec 2011 Number	31 Dec 2011 £000	31 Dec 2010 Number	31 Dec 2010 £000
Authorised ordinary shares of 5p each	**145,000,000**	**7,250**	145,000,000	7,250
Issued and fully paid:				
At 1 January	**80,839,259**	**4,041**	86,897,277	4,344
Issued under share option schemes	**556,418**	**28**	779,321	39
Tender offer	**–**	**–**	(6,837,339)	(342)
At 31 December	**81,395,677**	**4,069**	80,839,259	4,041

Following a tender offer to all shareholders in 2010, the Company repurchased 6,837,339 ordinary shares for consideration of £6,154,000 in cash plus expenses of £134,000. These shares were then cancelled.

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	2011 Number	2010 Number
Between 27 February 2004 and 27 February 2011	2001	168p	–	500
Between 26 October 2004 and 26 October 2011	2001	87.5p	–	50,000
Between 8 March 2005 and 8 March 2012 *	2002	93p	–	60,000
Between 8 March 2005 and 8 March 2012	2002	93p	–	30,000
Between 22 July 2005 and 22 July 2012	2002	42.5p	10,000	55,000
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 15 June 2006 and 15 June 2016	2006	59.33p	26,666	60,000
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 25 February 2007 and 25 February 2014	2004	55.8p	–	10,000
Between 28 April 2007 and 28 April 2014	2004	60p	27,500	67,500
Between 1 March 2008 and 1 March 2015	2005	70.67p	–	20,000
Between 22 September 2008 and 22 September 2015	2005	70.50p	180,000	345,000
Between 24 May 2009 and 24 May 2016	2006	5p	397,991	397,991
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	104,007
Between 28 February 2011 and 28 February 2018	2008	48.17p	33,331	145,000
Between 28 February 2011 and 28 February 2018	2008	5p	–	25,000
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	174,995	250,000
Between 2 December 2011 and 2 December 2018	2008	5p	322,478	351,780
Between 16 April 2013 and 16 April 2020	2010	78p	25,000	50,000
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	–
Between 20 September 2014 and 20 September 2021	2011	5p	15,000	–
			2,923,652	3,611,133

* Share options issued by the Microgen Employee Share Participation Trust.

20. Share premium account

	£000
Group and Company	
At 1 January 2010	11,285
Premium on shares issued during the year under the share option schemes	246
At 31 December 2010	11,531
Premium on shares issued during the year under the share option schemes	311
At 31 December 2011	**11,842**

21. Capital Redemption Reserve and Other Reserves

	Total £000
Capital Redemption Reserve	
Group and Company	
At 31 December 2010 and 31 December 2011	**1,146**

Other reserves

	Hedging reserve £000	Merger reserve £000	Other reserves £000	Total £000
Group				
At 1 January 2010	48	36,974	271	37,293
Cash flow hedges				
– net fair value gains in the period net of tax	(36)	–	–	(36)
Shares issued under share option schemes	–	–	(191)	(191)
At 31 December 2010	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**

	Hedging reserve £000	Merger reserve £000	Other reserves £000	Total £000
Company				
At 1 January 2010	–	20,177	271	20,448
Shares issued under share option schemes	–	–	(191)	(191)
At 31 December 2010	–	20,177	80	20,257
Shares issued under share option schemes	–	–	(80)	(80)
At 31 December 2011	**–**	**20,177**	**–**	**20,177**

Other reserves for 2010 comprised of Microgen plc shares held through ESOP trusts. All such shares were transferred to option holders in 2011.

22. Retained earnings

	Group £000	Company £000
At 1 January 2010	6,637	30,741
Profit for the year	6,511	78
Share options – value of employee service (note 26)	215	373
Shares issued under share option schemes	191	191
Deferred tax on financial instruments (note 12)	(18)	–
Corporation tax on share options	93	–
Shares repurchased and cancelled	(6,288)	(6,288)
Exchange rate adjustments	95	–
Share options issued from Microgen Employee Share Participation Scheme Trust	2	2
Dividends paid (note 7)	(2,084)	(2,084)
At 31 December 2010	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**

The profit for the financial year dealt with in the financial statements of the Company was £44,000 (2010: £78,000). 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 for the year to net cash generated from operations

	Group Year ended 31 Dec 2011 £000	Group Year ended 31 Dec 2010 £000	**Company Year ended 31 Dec 2011 £000**	Company Year ended 31 Dec 2010 £000
Profit before tax	**9,598**	7,852	**146**	82
Adjustments for:				
Depreciation	**739**	649	**–**	–
Amortisation of intangible assets	**117**	255	**–**	–
Share-based payment expense	**115**	215	**–**	–
Finance income	**(258)**	(140)	**(144)**	(82)
Finance costs	**142**	126	**–**	–
Changes in working capital:				
Decrease/(increase) in receivables	**360**	1,656	**(693)**	(181)
Increase/(decrease) in payables	**1,776**	668	**(4)**	45
(Decrease)/increase in provisions	**(47)**	67	**–**	–
Cash generated from operations	**12,542**	11,348	**(695)**	(136)

24. Commitments

	31 Dec 2011 £000	31 Dec 2010 £000
Group		
Contracts placed for future capital expenditure not provided in the financial statements	**11**	93

The Company has no unprovided financial commitments (2010: £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 2011		31 Dec 2010	
	Properties £000	**Other £000**	Properties £000	Other £000
Within one year	**513**	**15**	297	38
In the second to fifth year inclusive	**1,045**	**11**	229	3
	1,558	**26**	526	41

The Company had no operating lease commitments during the year (2010: nil)

26. Share based payments

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 15 (2010: 12) 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.

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

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**1,208,126**	**5p**	1,424,771	5p
Granted	**15,000**	**5p**	130,000	5p
Lapsed	**(31,385)**	**5p**	(43,290)	5p
Exercised	**(22,917)**	**5p**	(303,355)	5p
Outstanding at 31 December	**1,168,824**	**5p**	1,208,126	5p
Exercisable at 31 December	**1,023,824**	**5p**	701,346	5p

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 5.95 years (2010: 6.93 years).

In 2011 options were granted on 20 September 2011 (2010: options were granted on 13 December 2010). The estimated fair value of the options granted on that date was 148.94p (13 December 2010: 102.98p.)

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. 49 employees (2010: 60) 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:

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**2,403,007**	**55.61p**	3,099,501	55.33p
Granted	**70,000**	**140.00p**	50,000	78.00p
Lapsed	**(124,678)**	**60.81p**	(266,315)	54.68p
Exercised	**(593,501)**	**63.24p**	(480,179)	56.67p
Outstanding at 31 December	**1,754,828**	**55.64p**	2,403,007	55.61p
Exercisable at 31 December	**1,659,828**	**51.75p**	817,507	57.14p

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 144.69p (2010: 97.15p).

26. Share based payments (continued)

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 5.70 years (2010: 6.01 years).

Included within the outstanding share options at 31 December 2011 under Share Option Plans and the PSP were outstanding share options of 1,397,991 (2010: 1,397,991) which whilst outside of the Association of British Insurers recommended limits have been approved by the Company's shareholders.

In 2011 70,000 options were granted on 3 March 2011 (2010: 50,000 options granted). The estimated fair value of the options granted on that date was 55.54p (2010: 30.94p).

The Group recognised total expenses of £115,000 (2010: £215,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total credit in the income statement was £135,000 (2010: Charge £180,000). There was a deferred tax credit taken directly to equity of £56,000 (2010; £nil).

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 £418,000 (2010: £371,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2011, contributions of £72,000 (2010: £69,000) due in respect of the 2011 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:

	31 Dec 2011 £000	31 Dec 2010 £000
Services invoiced to Sagentia Limited	**–**	1
Services invoiced from Sagentia Limited	**38**	–

Mr Ratcliffe is the chairman of Microgen plc and Sagentia Group plc, the parent company of Sagentia Limited. The above services were procured on arms length terms and conditions and Mr Ratcliffe did not participate in the commercial or contractual negotiations in respect of these services. At 31 December 2011 £37,500 was owed to Sagentia Limited (2010: £nil).

The Company acts as the Group's treasury vehicle and during the year borrowed a net £10,488,000 (2010: £9,116,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2011 (2010: 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 30 December 2011.

At 31 December 2011 the Group has not recognised liability in respect of the potential awards payable under VERBS (2010: nil).

Shareholder *Information*

Shareholder Analysis Range	Number of Shareholders	Percentage of overall total	Number of shares	Percentage of overall total
1 – 1,000	687	54.6%	257,821	0.3%
1,001 – 5,000	340	27.0%	831,842	1.0%
5,001 – 50,000	153	12.2%	2,295,339	2.8%
50,001 – 500,000	51	4.0%	7,468,532	9.2%
500,001 and above	27	2.2%	70,542,143	86.7%
Totals	**1,258**	**100%**	**81,395,677**	**100%**

Investor type	Number of shares	Percentage of overall total
Nominee Companies	59,663,679	73.3%
Private individuals	13,060,835	16.0%
Banks and bank nominees	4,650,717	5.7%
Pension funds	3,806,692	4.7%
Limited companies	204,407	0.3%
Deceased accounts	9,344	0.0%
Investment trusts	1	0.0%
Other institutions	2	0.0%
Totals	**81,395,677**	**100.0%**

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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 24 April 2012 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 2011

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