

INSTEM PLC - QCA CODE COMPLIANCE

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
1	Establish a strategy and business model which promote long-term value for shareholders	The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long term. It should demonstrate the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long term future.	Yes	<p>Contained within the Annual Report & Website:</p> <p>Strategy</p> <p>The company has a rolling 5-year strategy of organic growth supplemented by acquisitions, introducing new software solutions for the early development market & providing technology enabled outsourced services.</p> <p>It enjoys strong market positions, with a niche focus, high levels of annual support renewals & low levels of customer attrition.</p> <p>Growing focus on diversification of business to incorporate services alongside product sales in addition to growth in software as a service (SaaS).</p> <p>Business Model</p> <p>Instem has been structured to deliver software and services in three distinct, but complementary, value propositions:</p> <p>1 Study Management and Data</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>Collection – efficiently capture, analyse and report scientific study data.</p> <p>2 Informatics – generate new insights from existing large data sets through the application of sophisticated big data aggregation and analytics.</p> <p>3 Regulatory Solutions – help clients ensure compliance with global regulations such as the FDA and EMA from the early stage of product development, through an approved product's entire commercial life.</p> <p>The key challenge in executing on the above is primarily in the area of Regulatory Solutions and being able to hire staff with appropriate skill sets at a rate that keeps pace with the ever increasing demand for our products and services.</p> <p>Risk mitigation takes place through a combination of regular performance review and a comprehensive insurance programme.</p>	
2	Seek to understand and meet shareholder needs and expectations	Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base.	Yes	<p>Regular discussions take place between the Executive Directors and shareholders:</p> <p>Institutional – on the half-yearly</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
		<p>The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.</p>		<p>roadshow plus ad hoc meetings throughout the year. Feedback can include suggestions for the company's future M&A strategy, debt v equity structure and dividend policy. The independent Non-Executive director meets key institutional shareholders on an ad hoc basis. Secondary placings since 2016 have been oversubscribed with new institutions added to the share register.</p> <p>Retail – presentations to and discussions with individual investor groups arranged through trade institutions and financial PR. Attendance (stand exhibition) and presentations at investor tradeshows. Increased levels of share trading have usually followed these events with retail investors keen to obtain shares.</p> <p>There is no one person at Instem responsible for investor relations as it is handled by a small team comprising members of the Marketing team and the Executive Board members.</p> <p>The company combines contribution to in-house broker analyst notes (predominantly focused on institutional interest) with paid-for analyst notes that are retail investor focused.</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>The company supplies video and telephone interviews through Proactive Investor to spread key company messages to a wider audience.</p> <p>The company discusses shareholder (AGM) voting with Nomad/Broker and act on lessons learned.</p>	
3	<p>Take into account wider stakeholder and social responsibilities and their implications for long term success</p>	<p>Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations.</p> <p>Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model.</p> <p>Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder</p>	Yes	<p>As above, the company has ongoing dialogue with stakeholders and acts on feedback.</p> <p>The company actively seeks ways to help its customers reduce the volume of non-clinical and clinical testing through its genotox and scientific TSA service offerings.</p> <p>The executive management team has an open-door policy to all stakeholders, regular meetings take place with staff (individually and collectively), and customers/suppliers. The company regularly consults its customers. All feedback is carefully evaluated and acted upon accordingly. Feedback drives product roadmaps that incorporate client requests for product development in future releases.</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
		groups.		<p>The independent non-executive director communicates with the major shareholders and feeds back their input to the Board.</p> <p>The company listens to its staff - Annual staff surveys take place along with questionnaires to staff throughout the year on specific initiatives. Sub-groups exist to consider and recommend feedback to the company based on the results. Actions that have been taken include more flexible working hours, buying/selling annual holidays, introduction of benefits such as a cycle to work scheme, recreational facilities in the offices and a salary sacrifice option.</p>	
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer.	Yes	The Company maintains a risk register which is shared with the Executive management team and the Board and is reviewed every 6 months or more regularly if needs be. Risks are addressed at each Board Meeting in relation to their impact on current and future business. To the extent that actions are required as a consequence	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
		Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).		the Board will normally task the Executive Management with dealing with the matter and reporting back to the Board. The Board works closely with the senior Executive team in setting strategy and operating a rolling 5-year Business Plan.	
5	Maintain the board as a well-functioning, balanced team led by the chair.	<p>The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.</p> <p>The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.</p> <p>The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement.</p> <p>The board should be supported by committees (e.g. audit, remuneration,</p>	Yes	<p>The members of the Board have served since IPO in 2010 with the exception of the current CFO who joined the Board in 2011. All members of the Board have substantial Board experience and function well and effectively as a team. The Board comprises two executive directors (CEO and CFO) plus three non-executive directors, including the Chairman.</p> <p>The Board believes the level of involvement of the non-executive members in the running of the company is sufficient for the non-executives to be classified as independent, however due to the length of tenure of the non-executives and the historical proportion of their shareholdings in the company only one of the non-executive directors is deemed to be wholly independent by institutional shareholders. This individual is considered to be the senior independent non-executive director. No individual member of the Board holds</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
		<p>nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.</p> <p>Directors must commit the time necessary to fulfil their roles.</p>		<p>more than 10% of the company's shares.</p> <p>The Board will consider appointing a second 'independent' director if an appropriate candidate is identified or presented to it.</p> <p>Meetings and calls are held regularly throughout the year, with formal Board Meetings held every two months and Corporate Review Meetings held in the intervening months to which all directors are invited to attend – attendance of each director at the Board Meetings is included in the Corporate Governance Statement within the Annual Report- and the Board believes the necessary commitment to their roles is provided by the individual members, with key matters debated robustly and the executive management team challenged vigorously. Information is provided to the Directors sufficiently in advance of all Board and Committee meetings for them to be able to properly consider the matters to be considered at the relevant meeting.</p> <p>The company operates separate Audit, Remuneration and Nominations Committees, each staffed by the three non-executive members of the Board. The CEO and CFO attend these</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				meetings by invitation.	
6	Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	<p>The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition.</p> <p>The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board.</p> <p>As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.</p>	Yes	<p>The Board is well balanced with each member having significant sector, technical, financial and public market experience. The Annual Report contains a page headed Board of Directors that details each of the Directors and their professional background.</p> <p>The Board of Directors comprises:</p> <p>David Gare – Non-Executive Chairman David Sherwin – Non-Executive Director Mike McGoun – Independent Non-Executive Director Phil Reason – Chief Executive Officer Nigel Goldsmith – Chief Financial Officer</p> <p>David Gare is the Group visionary who founded the company 50 years ago and with his IT background has led and overseen its growth throughout its history. David has provided much of the strategic direction of the business and focuses on value creation.</p> <p>David Sherwin is a qualified accountant who joined Instem in its formative years and has worked closely alongside the Chairman in shaping and developing the</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>company to what it is today. David is Instem's former CFO and now provides financial oversight and input to the business. Along with the Chairman, David has actively managed the company's Defined Benefit Pension Scheme since inception on behalf of the company.</p> <p>Mike McGoun joined Instem as its Independent Non-Executive Director on its IPO in 2010. Mike has an IT background and has chaired and managed both private and public companies. His knowledge of the public markets and his senior level experience allows him to robustly challenge the Executive team and hold them to account whilst also providing wise counsel to the company.</p> <p>Phil Reason has a background in software and systems development and has extensive industry knowledge having worked in this sector for most of his career. He has been with Instem for over 35 years, the majority of which as CEO. He has extensive experience of dealing with the public markets, raising finance, corporate acquisitions, driving organic growth and providing strategic direction.</p> <p>Nigel Goldsmith, a qualified accountant,</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>joined the company in 2011, a year after the IPO. He leads and is responsible for the company's finance function and has been actively involved in Instem's subsequent corporate acquisitions. He has been a CFO since 2000, primarily within the Life Sciences/Healthcare sector. He is the Company Secretary.</p> <p>The Chairman reviews the composition of the Board from time to time and assesses the contribution of each Board member to the overall strategic goals of the business. This review considers the balance of the Board, individual's previous experience in public markets, whether individuals remain motivated and committed to the achievement of the Group's objectives and their objectivity. There is no formal company requirement for each Board member to keep their skill set up to date but there is an expectation that each member will undertake any training necessary to carry out their role. This process will continue to be monitored. The financially qualified members of the Board have annual Continuing Professional Development (CPD) obligations which necessitate regular technical training on accounting and taxation standards and</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>developments.</p> <p>There are no barriers to Board composition with the key requirement being that the candidate has the necessary skills and capability to perform their duties. The company remains mindful that there are no female members on the Board but operates a policy of promoting equal opportunity. Females occupy senior positions within the company including its Chief Operating Officer, Head of the company's Clinical operation, Financial Controller and Head of HR.</p>	
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	<p>The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.</p> <p>The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.</p> <p>It is healthy for membership of the board to be periodically refreshed. Succession</p>	Partly	<p>Board members regularly consult with shareholders and act on their input and feedback.</p> <p>The Nominations Committee considers the composition of the Board and Executive Management team on an annual basis and has to date concluded that the Board remains suitable and appropriate for the current and foreseeable size and nature of the business.</p>	<p>The Board is considering how a corporate governance review can be carried out and other ways of putting performance measures in place, including Board and senior management succession planning.</p> <p>The Board does not currently have a formal evaluation process for its performance as a whole, or for the performance of the</p>

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
		planning is a vital task for boards. No member of the board should become indispensable.			individual Directors, but will consider implementing such a process if deemed appropriate or necessary in the future.
8	Promote a corporate culture that is based on ethical values and behaviours	<p>The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.</p> <p>The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.</p> <p>The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.</p> <p>The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.</p>	Yes	<p>Company values are communicated and reinforced on a regular basis through company meetings and staff committees and form part of the employee recruitment induction process as well as being incorporated in the company's intranet. These values, known by the acronym RECIPE, are Respect, Empowerment, Creativity, Integrity, and Passion leading to Enjoyment in our working lives.</p> <p>The company's culture is consistent with the objectives, strategy and business model contained in the Strategic Report within the Annual Report and the description of Principal risks and uncertainties within the Financial Review section of the Annual Report.</p> <p>Management decisions are cascaded to staff via town hall and departmental meetings.</p> <p>Specific reference to the company's corporate culture will be referred to in the</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				company's Annual Report.	
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	<p>The company should maintain governance structures and processes in line with its corporate culture and appropriate to its:</p> <ul style="list-style-type: none"> • size and complexity; and • capacity, appetite and tolerance for risk. <p>The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.</p>	Yes	<p>The company believes its governance structure is appropriate for the size and complexity of the business. However it continues to monitor this situation and future developments may include the addition of a second independent non-executive director.</p> <p>The company operates an Audit Committee, a Nominations Committee, and a Remuneration Committee, each of which consists of the senior independent non-executive director and the two other non-executive directors. The Audit Committee has unrestricted access to the Group's auditors and ensures that auditor independence is not compromised. More information on each of the Committees is set out in the Corporate Governance section of the Instem Investor Centre on the company's website.</p> <p>All business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including matters referred to the Board, based on materiality, risk, need for a company decision or importance, from either the executive management or</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>from any of the three Committees above.</p> <p>This would include recommendations for the adoption of a new LTIP, recruitment of a new director or appointment of auditors.</p> <p>The company solicits the guidance and advice of its Nominated Adviser (Nomad) to ensure it is AIM Rule compliant.</p>	
10	<p>Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</p>	<p>A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company.</p> <p>In particular, appropriate communication and reporting structures should exist between the board and all constituent parts of its shareholder base. This will assist:</p> <ul style="list-style-type: none"> • the communication of shareholders' views to the board; and • the shareholders' understanding of the unique circumstances and 	Yes	<p>Regular meetings take place between the company and its stakeholders including half-yearly formal presentations and discussions around results publication to both institutional shareholders and business analysts by the Executive directors. The executive team report back to the Board all relevant shareholder feedback from these meetings.</p> <p>The company's Nomad & Broker and Financial PR adviser follow these meetings with separate correspondence with shareholders and analysts and provide written reports to the company of that feedback.</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
		<p>constraints faced by the company.</p> <p>It should be clear where these communication practices are described (annual report or website).</p>		<p>The company's Nomad addresses the Board at least once per annum and provides updates and guidance on AIM developments/requirements plus relevant feedback from shareholders.</p> <p>No director has specific individual responsibilities or remits, for example with shareholders or other stakeholder groups, although the independent non-executive director has occasionally interacted directly with institutional shareholders at their request.</p> <p>The executive management team periodically make presentations to retail investors at various venues around the country. An analyst meeting has been held at the company's Stone head office that was well attended and enabled the participants to engage with a broader section of the company's management.</p> <p>Where a significant proportion of votes are cast against a resolution at any general meeting, the company engages with its Nomad and relevant shareholders to understand the reason for that vote and to seek to address any related concerns from the shareholders in question. Following the AGM an RNS announcement is published that gives the result of the voting on the resolutions</p>	

Principle No.	Principle	Application	Comply? (Yes/No/Partly)	If Yes, how?	If No or Partly, explain why
				<p>proposed. Historically all resolutions have been carried since IPO.</p> <p>The company has an Investor website that can be accessed via the company's website at www.instem.com. Copies of the company's annual reports and AGM notices for the last 5 years are included on this website.</p>	