23 September 2019

Instem plc

("Instem", the "Company" or the "Group")

Half Year Report

Instem plc (AIM: INS.L), a leading provider of IT solutions to the global life sciences market, announces its unaudited half year results for the six months ended 30 June 2019.

Financial Highlights

- Total revenues were up 11% to £11.7m (H1 2018: £10.5m)
    - New Software as a Service orders increased to £1.1m (H1 2018: £0.5m)
    - Recurring revenue (annual support and SaaS) increased to £7.0m (H1 2018: £6.5m)
- EBITDA* of £1.7m including a beneficial IFRS16 adjustment of £0.3m (H1 2018: £1.4m)
- Profit before tax of £0.4m (H1 2018: £0.1m)
- Basic earnings per share of 2.0p (H1 2018: 0.3p)
- Diluted earnings per share of 1.9p (H1 2018: 0.2p)
- Net operating cash inflow of £3.2m (H1 2018: inflow £1.6m)
- Cash balance as at 30 June 2019 of £6.0m (H1 2018: £3.7m)

**Earnings before interest, tax, depreciation, amortisation and non-recurring items.*

Operational Highlights

- All three areas of the business, Data Collection, Informatics and Regulatory Solutions performed well during the period
- Continued transition towards SaaS based delivery and revenue model, in line with strategic objective to increase earnings visibility

Post Balance Sheet Highlight

- Awarded four Provantis contracts worth approximately £1.7m in aggregate, of which approximately £1.0m in revenue is expected to be recognised in H2 2019

Phil Reason, CEO of Instem plc, commented:

“Performance in the first half of the current year reflects both the strategic restructuring undertaken in prior years and the increasing efficacy of the Company’s leading technology and services. It was further underpinned by a positive market backdrop, with the pharmaceutical industry increasing investment in the types of software and services Instem provides to match the expanding drug pipeline and to satisfy increasing regulatory requirements.”

“Strong order intake and pipeline growth during the period enabled accelerated investment in personnel to ensure we execute on these opportunities.”

“Our stated strategy of moving clients from perpetual licences to SaaS has been more successful than we anticipated and consequently some short-term licence revenue is being replaced. Whilst this will have a slight impact on earnings in the current year, it will generate longer-term recurring revenues going forward.”

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CHAIRMAN'S STATEMENT

I am pleased to report that the first half of 2019 demonstrated continued operational and financial progress with the Company maintaining market leadership in all of its business areas.

Importantly, all areas of the business have performed well during the period, with total revenue increasing approximately 11% year on year, and our strategic move towards high quality SaaS based business accelerating beyond our expectations, which will result in revenues being recognised over the length of the contract rather than on installation of the software.

The strategy that we outlined to investors and implemented at the beginning of 2019 was:

- A focus on materially increasing SaaS based revenues through a combination of new business wins directly onto our SaaS platform and accelerating the conversion of on-premise customers to SaaS
- The expansion of "technology enabled outsourced services"
    a. Instem's SEND services business, where the Group has a market leading offering, continues to secure the majority of contracts awarded across the industry
    b. To make further progress in developing the unique opportunity presented by our Artificial Intelligence (AI) enabled informatics business
- Expansion of our market penetration across our existing client base, cross selling additional software and services and making strategic acquisitions to consolidate the fragmented industry where appropriate

I am therefore more than satisfied that our stated strategy is being executed well. Recurring revenue increased to £7.0m (H1 2018: £6.5m) and we demonstrated the continued leadership of our technology enabled services with notable expansion and repeat orders from some of the world's largest pharmaceutical organisations for our SEND outsourced services, where revenue increased over 100%.

I was also especially pleased that our early investment and development of our Artificial and Augmented Intelligence enabled Informatics business has already begun to demonstrate traction with revenue increasing 47%, albeit from a low base, leading the industry in the initial area of application. We have noted that most of the large pharmaceutical companies have already begun to adopt Artificial Intelligence tools to reduce the cost of novel drug discovery through collaborations and acquisitions of AI developers and aim to maintain our leadership in this field going forward.

With regard to our non-organic growth ambitions, we continue to diligently evaluate acquisition opportunities and our strategy to consolidate our fragmented industry remains a key focus. I remain confident that our objective to acquire complementary technologies or enter adjacent markets will be successfully executed, particularly given our strengthened balance sheet.

In line with Corporate Governance best practice, we have recently reviewed our financial audit provider and can advise that we have now appointed Grant Thornton as our auditors. We would like to thank RSM for their excellent support over the years.

David Gare
Non-Executive Chairman
23 September 2019

CHIEF EXECUTIVE'S REPORT

Strategic Developments

Instem continued to benefit during the first half of 2019 from the centralised operations platform, established in 2017, which provides a flexible resource to serve the various business areas and enabled them all to perform well during the period.

The Company generated an 18% increase in the number of new bookings compared to H1 2018 with total recognised revenue increasing 11%. Importantly, one of our key strategic goals stated at the beginning of the year was to increase the high-quality SaaS based subscription revenue stream further. I am therefore pleased to report that SaaS based orders exceeded our expectations during the period. Whilst the absence of large, high-margin perpetual license income held back a corresponding increase in EBITDA, the continued shift to SaaS and the long-term operational and financial benefits it brings, such as increased earnings visibility, is welcomed by both customers and shareholders of Instem alike.

It was also a particularly successful period for our SEND technology enabled services business with revenue increasing 100% and our AI powered Informatics division demonstrated continued progress, with a 47% increase in revenue and notably increased recognition of the capabilities of the technology to reduce the risk of drug therapy failure during clinical testing.

Market Review

Purchases of software and technology enabled services that Instem delivers is largely subject to both the fortunes of our customers, who are typically large pharmaceutical companies, contract research organisations and Biotech companies and the number of drug therapies being developed in particular.

I am therefore pleased to report that the general market backdrop for Instem is strong, with a record number of new FDA drug approvals in 2018 and increasing investment budgets for technology tools to enhance productivity. Recent research from Pharma Intelligence highlighted that the number of drugs in the global pharmaceutical R&D pipeline is now at an all-time high, further propelling user demand.

Add to this positive general market backdrop the increasing regulatory market drivers, such as the recently mandated SEND protocols, and we believe that Instem is well placed to perform strongly over the near and longer-term.

From an international stand point, positive market conditions have enabled another strong contribution from the Asia-Pacific region.

Business Performance
Study Management and Data Collection

Study Management and Data Collection performed particularly strongly during the first half of the year, largely due to the increased volume of orders for the Company's market leading preclinical software suite for organisations engaged in non-clinical evaluation studies. Additional users, modules and upgrade options all maintained positive momentum through the period.

Provantis, the non-clinical study management software, had its best ever performance in a single six-month period winning nine new clients across North America, Asia Pacific and mainland Europe. Whilst the Company doesn't expect this strong performance to be repeated in the second half of the year, due to the mature nature of the end markets for Provantis, the new business pipeline remains strong with additional contracts expected to close in the second half of the year. Post the period end, the Company has been awarded four new contracts for Provantis, worth approximately £1.7m, around £1m of revenue is expected to be recognized in H2 2019. Two of these contracts are with new customers, one of which is a top three global chemical company.

Notocord, the Company's leading software platform for the acquisition, display and analysis of physiological signals for applications across the safety pharmacology industry, received a 63% increase in the number of new business bookings during the period with a corresponding increase in order value of 211% over the first half of 2018.

Investment in Alphadas, the Company's leading early phase clinical software, continued during the period to increase its addressable market and adapt the software to evolving user requirements. The Alphadas suite now encompasses complete clinical trial management with data capture modules, remote data monitoring to enable managers to review data in real-time and submission modules to ensure compliant datasets for human clinical study data.

Recurring revenue and renewal rates remained high during the period with the Company demonstrating further penetration across the APAC region with existing clients both increasing the number of licensed users and deploying more modules during the period.

Informatics

Application of Artificial Intelligence across the Pharmaceutical industry is expanding rapidly with recent research from Accenture, a leading technology consultancy, suggesting key clinical health applications of AI could save the industry approximately $150bn annually in drug development costs.

Instem's informatics business is focussed on the application of Artificial Intelligence and Big Data solutions to assess, very early in Research/Discovery, safety risks that may otherwise only be identified during preclinical or clinical testing, potentially saving the developer significant amounts of money.

A rapidly growing area of recognition is across the Target Safety Assessment ("TSA") process, which helps organisations that develop innovative therapeutics to understand the role of their drug target in normal physiology, and any potential adverse consequences of its modulation.

Instem's KnowledgeScan product harnesses leading edge augmented intelligence technologies and distils millions of data records from a variety of published sources. With an industry leading comprehensive and consistent report format, interpreted by its team of expert life scientists, Instem's TSA service enables customers to make faster and better-informed decisions.

Four clients placed repeat orders, with an additional five new clients adopting the service during the period. Of particular note was a top ten pharmaceutical company placing multiple orders during the period, which all contributed to a total increase in recognised revenue for the period of 47%.

To further extend its leadership in this field, the Company recruited a further two team members in Cambridge, UK and began the build out of its Informatics team in Pune, India with two employees starting during the period and another four expected to join before the end of the year.

Regulatory Solutions

Our Regulatory SEND solutions continue to lead the FDA (Food and Drug Administration) mandated market. Numerous clients utilise our technology solutions to create, manage and analyse SEND compliant information but the biggest growth area is technology enabled outsourced services, where Instem leverages its technology to deliver fully compliant SEND packages ready for electronic submission. SEND-related technology enabled service revenue increased over 100% compared to H1 2018.

Six additional billable staff were added to the SEND services team, three UK/US and three in Pune. We also expect to continue to invest in this area in the second half of 2019 to further enhance the technology platform and increase billable resources to satisfy growing client and wider market demand.

Outlook

Performance in the first half of the current year reflects both the strategic restructuring undertaken in prior years and the increasing efficacy of the Company's leading technology and services. It was further underpinned by a positive market backdrop, with the pharmaceutical industry increasing investment in the types of software and services Instem provides to match the expanding drug pipeline and to satisfy increasing regulatory requirements.

Strong order intake and pipeline growth during the period enabled accelerated investment in personnel to ensure we execute on these opportunities.

Our stated strategy of moving clients from perpetual licences to SaaS has been more successful than we anticipated and consequently some short-term licence revenue is being replaced. Whilst this will have a slight impact on earnings in the current year, it will generate longer-term recurring revenues going forward.

Phil Reason
Chief Executive Officer
23 September 2019

FINANCIAL REVIEW

Instem's revenue model consists of fees for perpetual licences, support and maintenance, SaaS subscriptions and professional services. We are experiencing significant growth in our technology enabled outsourced services business and SEND in particular.

Total revenues increased 11% from £10.5m to £11.7m in the period. Recurring revenue, derived primarily from support & maintenance fees and SaaS subscriptions, increased by 8% to £7.0m (H1 2018: £6.5m) while revenue from outsourced services increased strongly to £2.3m (H1 2018: £1.1m).

Earnings from operations before interest, tax, depreciation, amortisation and non-recurring items, ('EBITDA') for the period, were £1.7m (H1 2018: £1.4m). This included a positive impact of £0.3m following the adoption of IFRS 16 from 1 January 2019, as further explained below. Operating expenses increased by £0.5m in the period compared with H2 2018, reflecting the ongoing investment in staff and direct costs linked to higher revenue. The underlying EBITDA of £1.4m reflected the transition to SaaS revenue from perpetual licence income, with licence revenues down by £0.4m compared with H1 2018.

The adoption of IFRS16 Leases is effective for periods beginning on or after 1 January 2019. IFRS16 removes the operating and finance lease classification in IAS17 Leases and replaces them with the concept of right-of-use ('ROU') assets and associated financial liabilities. This change results in the recognition of a liability on the balance sheet for all leases which convey a right to use the asset for the period of the contract. The lease liability reflects the present value of the future rental payments and interest, discounted using either the effective interest rate or the incremental borrowing rate of the entity.

Instem has adopted IFRS16 using the modified retrospective transition approach, with the cumulative effect of adopting the new standard being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated. The impact on EBITDA of adopting IFRS16 in the period is an increase of £0.3m, with an equivalent charge to amortisation cost resulting in no impact to profit before tax. ROU assets recognized on the balance sheet are £2.9m with associated financial liabilities of £3.0m and an equity adjustment of £0.1m.

Development expenditure in the period was £1.5m (H1 2018: £1.6m), of which £0.7m was capitalised (H1 2018: £0.7m). A significant proportion of the development costs relates to the continued investment in our Study Management and Data Collection software.

The IAS19 funding deficit on Instem's defined benefit pension scheme has remained unchanged from 31 December 2018 at £2.2m (H1 2018: £1.5m). Actuarial liabilities have increased due to a fall in corporate bond yields over the period. However, this was offset by a combination of positive asset returns, a reduction in assumed life expectancy and deficit contributions paid over the 6 months.

The period saw strong net cash generation resulting in a cash inflow on operating activities of £3.2m (H1 2018: inflow of £1.6m) largely due to cash inflow from key contracts, outsourced services, working capital management and an R&D tax credit of £0.5m in respect of 2017. Cash balances at the end of June 2019 totalled £6.0m (H1 2018: £3.7m).

The movements in share capital, share premium and shares to be issued accounts reflect the respective exercise and granting of share options during the period.

In line with previous periods and given our policy of retaining cash within the business to capitalise on available growth opportunities, the Board has not recommended the payment of a dividend.

Principal risks and uncertainties
The principal risks and uncertainties within the business remain unchanged from those described in our 2018 Annual Report.

Nigel Goldsmith
Chief Financial Officer
23 September 2019

Instem plc

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

Continuing operations	**Notes**	**Unaudited Six months ended 30 June 2019 £000**	**Unaudited Six months ended 30 June 2018 £000**	**Audited Year ended 31 December 2018 £000**
REVENUE		**11,669**	**10,475**	**22,705**
Operating expenses		(9,935)	(8,953)	(18,437)
Share based payment		(72)	(143)	(216)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING ITEMS ("EBITDA")		**1,662**	**1,379**	**4,052**
Depreciation		(77)	(73)	(144)
Amortisation of intangibles arising on acquisition		(262)	(446)	(788)
Amortisation of internally generated intangibles		(374)	(320)	(738)
Amortisation of ROU assets		(272)	0	0
PROFIT BEFORE NON-RECURRING COSTS		**677**	**540**	**2,382**
Non-recurring costs	4	(84)	(373)	(539)
PROFIT AFTER NON-RECURRING COSTS		**593**	**167**	**1,843**
Finance income	5	11	74	33
Finance costs	6	(185)	(160)	(199)
PROFIT BEFORE TAXATION		**419**	**81**	**1,677**
Taxation		(90)	(41)	(207)
PROFIT FOR THE PERIOD		**329**	**40**	**1,470**
OTHER COMPREHENSIVE (EXPENSE)/INCOME				
Items that will not be reclassified to profit and loss account				
Actuarial (loss)/gain on retirement benefit obligations		(275)	2,085	1,300
Deferred tax on actuarial gain & loss		47	(354)	(221)
		(228)	1,731	1,079
Items that may be reclassified to profit and loss account:				
Exchange differences on translating foreign operations		16	(272)	(193)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		**(212)**	1,459	886
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**117**	**1,499**	**2,356**
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**329**	**40**	**1,470**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**117**	**1,499**	**2,356**
Earnings per share from continuing operations				
- Basic	3	2.0p	0.3p	9.2p
- Diluted	3	1.9p	0.2p	8.7p

Instem plc
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Notes	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		17,506	17,350	17,411
Property, plant and equipment		290	276	300
ROU assets		2,848	-	-
Deferred tax assets		34	93	-
TOTAL NON-CURRENT ASSETS		**20,678**	**17,719**	**17,711**
CURRENT ASSETS				
Inventories		39	14	37
Trade and other receivables		7,187	7,820	7,807
Current tax receivable		532	536	1,013
Cash and cash equivalents	7	6,039	3,739	3,572
TOTAL CURRENT ASSETS		**13,797**	**12,109**	**12,429**
TOTAL ASSETS		**34,475**	**29,828**	**30,140**
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		2,566	2,380	2,156
Deferred income		9,323	10,155	8,625
Current tax payable		176	-	401
Lease liabilities		717	33	34
Deferred Tax Liabilities		-	54	12
TOTAL CURRENT LIABILITIES		**12,782**	**12,622**	**11,228**
NON-CURRENT LIABILITIES				
Lease liabilities		2,280	35	18
Retirement benefit obligations		2,231	1,461	2,249
Provision for liabilities and charges	8	250	250	250

TOTAL NON-CURRENT LIABILITIES		4,761	1,746	2,517
TOTAL LIABILITIES		**17,543**	**14,368**	**13,745**

Instem plc
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

EQUITY	**Notes**	**Unaudited 30 June 2019 £000**	**Unaudited 30 June 2018 £000**	**Audited 31 December 2018 £000**
Share capital		1,630	1,591	1,592
Share premium		12,937	12,531	12,535
Merger reserve		1,598	1,598	1,598
Shares to be issued		1,082	937	1,010
Translation reserve		306	211	290
Retained earnings		(621)	(1,408)	(630)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**16,932**	**15,460**	**16,395**
TOTAL EQUITY AND LIABILITIES		**34,475**	**29,828**	**30,140**

Instem plc

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 £000	**Unaudited Six months ended 30 June 2018 £000**	**Audited Year ended 31 December 2018 £000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	419	81	1,677
Adjustments for:			
Depreciation	77	73	144
Amortisation of intangibles	908	766	1,526
Share based payment	72	143	216
Retirement benefit obligations	(325)	(328)	(499)
Finance income	(11)	(74)	(33)
Finance costs	185	160	199
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL	**1,325**	**821**	**3,230**
Movements in working capital:			
(Increase)/Decrease in inventories	(2)	17	(7)
Decrease in trade and other receivables	590	1,510	1,997
Increase/(Decrease) in trade, other payables and deferred income	1,063	(1,266)	(3,448)
Increase in provisions	-	-	-
CASH GENERATED FROM OPERATIONS	**2,976**	**1,082**	**1,772**
Finance income	11	74	33
Finance costs	(17)	(21)	(11)
Income taxes	256	477	408
NET CASH GENERATED FROM OPERATING ACTIVITIES	**3,226**	**1,612**	**2,202**

Instem plc
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 £000	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets	(731)	(672)	(1,490)
Purchase of property, plant and equipment	(67)	(30)	(145)
Payment obligations for ROU assets	(306)	-	-
Payment of deferred contingent consideration	-	(200)	(200)
Repayment of capital from finance leases	(17)	(16)	(31)
NET CASH USED IN INVESTING ACTIVITIES	**(1,121)**	**(918)**	**(1,866)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	440	45	50
Finance lease interest	(1)	(2)	(4)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**439**	**43**	**46**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,544**	**737**	**382**
Cash and cash equivalents at start of period	**3,572**	3,064	3,064
Effect of exchange rate changes on the balance of cash held in foreign currencies	(77)	(62)	126
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,039**	**3,739**	**3,572**

Instem plc
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2019
Attributable to owners of the parent

	Share capital £000	Share premium £000	Merger reserve £000	Shares to be issued £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance as at 31 December 2017 (audited) – restated*	**1,589**	**12,488**	**1,598**	**794**	**483**	**(3,179)**	**13,773**
Profit for the period	-	-	-	-	-	40	40
Other comprehensive (expense)/income	-	-	-	-	(272)	1,731	1,459
Total comprehensive (expense)/income	-	-	-	-	(272)	1,771	1,499
Shares issued	2	43	-	-	-	-	45
Share based payment	-	-	-	143	-	-	143
Balance as at 30 June 2018 (unaudited)	**1,591**	**12,531**	**1,598**	**937**	**211**	**(1,408)**	**15,460**
Profit for the period	-	-	-	-	-	1,430	1,430
Other comprehensive income/(expense)	-	-	-	-	79	(652)	(573)
Total comprehensive income	-	-	-	-	79	778	857
Shares issued	1	4	-	-	-	-	5
Share based payment	-	-	-	73	-	-	73
Balance as at 31 December 2018 (audited)	**1,592**	**12,535**	**1,598**	**1,010**	**290**	**(630)**	**16,395**
IFRS16 Leases adjustment**						(92)	(92)
Profit for the period	-	-	-	-	-	329	329
Other comprehensive income/(expense)	-	-	-	-	16	(228)	(212)
Total comprehensive income	-	-	-	-	16	101	117
Shares issued	38	402	-	-	-	-	440
Share based payment	-	-	-	72	-	-	72
Balance as at 30 June 2019 (unaudited)	**1,630**	**12,937**	**1,598**	**1,082**	**306**	**(621)**	**16,932**

* IFRS15 Revenue from Contracts with Customers was adopted from 1 January 2018 and is fully retrospective. Retained earnings as at 31 December 2017 is restated by (£452,000).

****** IFRS16 Leases was adopted from 1 January 2019 using the modified retrospective transition approach. The new standard removes the operating and finance lease classification in IAS17 Leases and replaces them with the concept of right-of-use assets and associated financial liabilities. The cumulative effect of adopting IFRS16 is recognised in equity as an adjustment to the opening balance of retained earnings for the current period.

NOTES TO THE FINANCIAL INFORMATION
For the six months ended 30 June 2019

GENERAL INFORMATION
The principal activity and nature of operations of the Group is the provision of world class IT solutions to the early development healthcare market. Instem's solutions for data collection, management and analysis are used by customers worldwide, to meet the needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products. Instem plc is a public limited company, listed on AIM, and incorporated in England and Wales under the Companies Act 2006 and domiciled in England and Wales. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire ST15 0SD, UK. These consolidated interim financial statements were approved by the Board of Directors on 22 September 2019.

Notes to the accounts

1. Basis of preparation and accounting policies

Basis of preparation
The Group's half-yearly financial information, which is unaudited, consolidates the results of Instem plc and its subsidiary undertakings made up to 30 June 2019. The Group's accounting reference date is 31 December.

The consolidated financial information is presented in Pounds Sterling (£) which is also the functional currency of the parent.

The financial information contained in this half year financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all of the information and disclosures required in the annual financial statements.

The financial information for the six months ended 30 June 2019 and 30 June 2018 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2018, prepared under IFRS, have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies
The accounting policies used in the preparation of the financial information for the six months ended 30 June 2019 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 31 December 2019.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), these financial statements do not contain sufficient information to comply with IFRS's.

Instem plc and its subsidiaries have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed groups, in the preparation of this half-yearly financial report.

Cash and cash equivalents
Cash and cash equivalents for the purposes of the Statement of Cash Flows comprise the net of cash and overdraft balances that are shown on the Statement of Financial Position in Cash and Cash Equivalents.

2. Segmental Information

The Directors consider that the Group operates in one business segment - Global Life Sciences, and therefore there are no additional segmental disclosures to be made in these financial statements.

3. Earnings per share

Basic earnings per share are calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

(a) Basic

	Unaudited Six months ended 30 June 2019	**Unaudited Six months ended 30 June 2018**	**Audited Year ended 31 December 2018**
Profit after tax (£000)	**329**	**40**	**1,470**
Weighted average number of shares (000's)	16,163	15,912	15,909
Basic earnings per share	2.0p	0.3p	9.2p

(b) Diluted

	Unaudited Six months ended 30 June 2019	**Unaudited Six months ended 30 June 2018**	**Audited Year ended 31 December 2018**
Profit after tax (£000)	**329**	**40**	**1,470**
Weighted average number of shares (000's)	16,163	15,912	15,909
Potentially dilutive shares (000's)	820	860	940
Adjusted weighted average number of shares (000's)	16,983	16,772	16,849
Diluted earnings per share	1.9p	0.2p	8.7p

(c) Adjusted

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions. Diluted adjusted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

	Unaudited Six months ended 30 June 2019	**Unaudited Six months ended 30 June 2018**	**Audited Year ended 31 December 2018**
Profit after tax (£000)	**329**	**40**	**1,470**
Non-recurring costs	84	373	539
Amortisation of acquired intangibles (£000)	262	446	788
Foreign exchange differences on revaluation of intergroup balances (£000)	69	(110)	(186)
Adjusted profit after tax (£000)	744	749	2,611
Weighted average number of shares (000's)	16,163	15,912	15,909
Potentially dilutive shares (000's)	820	860	940
Adjusted weighted average number of shares (000's)	16,983	16,772	16,849
Adjusted basic earnings per share	4.6p	4.7p	16.4p
Adjusted diluted earnings per share	4.4p	4.5p	15.5p

4. Non-recurring (costs)/income

	Unaudited Six months ended 30 June 2019 £000	**Unaudited Six months ended 30 June 2018 £000**	**Audited Year ended 31 December 2018 £000**
Guaranteed Minimum Pension (GMP) equalisation	-	-	(126)
Legal cost relating to historical contract disputes	(49)	-	(49)
Professional fees	(35)	(338)	(364)
Restructuring costs	-	(35)	-
	(84)	(373)	(539)

5. *Finance income*

	Unaudited Six months ended 30 June 2019 £000	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Foreign exchange gains	-	72	25
Other interest	11	2	8
	11	74	33

6. *Finance costs*

	Unaudited Six months ended 30 June 2019 £000	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Foreign exchange losses	82	-	-
Bank loans and overdrafts	17	21	11
Unwinding discount on deferred consideration	-	12	12
Net interest on pension scheme	32	125	172
ROU asset interest expense	53	-	-
Finance lease interest	1	2	4
	129	160	199

7. *Cash and cash equivalents*

	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
Cash at bank	15,037	12,737	12,570
Bank overdraft	(8,998)	(8,998)	(8,998)
	6,039	3,739	3,572

8. *Provision for liabilities and charges*

	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
At beginning of the period	250	250	250
Increase in provisions	-	-	-
At end of period	250	250	250

The provision relates to potential costs arising from historical contract disputes (see note 4).

9. *Availability of this Interim Announcement*

Copies of the Interim Report for Instem plc will be available from the Group's website at www.instem.com.