26 March 2014
Embargoed for 07:00

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

Unaudited Preliminary Results

Instem plc (AIM: INS.L), a leading provider of IT applications to the global early development healthcare market, announces its unaudited preliminary results for the year ended 31 December 2013.

Financial Highlights

- Revenues increased 7% to £11.4m (2012: £10.7m)
  - Recurring revenues increased 9% to £8.2m (2012: £7.5m), representing 72% of total revenues
  - Software as a Service (SaaS) revenues increased 35% to £1.5m (2012 £1.1m)
- Adjusted operating profit* increased 8% to £1.5m (2012: £1.3m)
- Reported profit before tax of £0.7m (2012: £1.3m)
- Cash balance as at 31 December 2013 of £2.1m (2012: £2.5m)
  - £1.6m net investment in acquisitions during 2013
- Adjusted** earnings per share of 8.6p (2012: 7.8p)
  - Basic earnings per share of 4.5p (2012: 8.9p)

** before amortisation of intangibles on acquisitions, share based payments and non-recurring costs*
***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.*

Strategic Developments

- Logos Technologies (rebranded "Instem Clinical") and its ALPHADAS® product suite acquired in May 2013. Fully integrated and performing strongly
- First entrance into the in vitro R&D market through the acquisition of Perceptive Instruments Ltd. in November 2013

Operational Highlights

- Customer retention rate remained strong at 95%
- Signed 10-year US$6.2m revenue SaaS contract for Provantis secured with the National Institute of Environmental Health Sciences (NIEHS), a US Government body
- SaaS deals with two top 10 pharmaceutical companies
- Provantis licensed for 3 additional clients in North America, Europe and India in Q4
- First Instem Clinical contract won with Retroscreen Virology Group plc (AIM:RVG), with additional sites licensed in December 2013
- Signed SEND contracts with a major healthcare customer, a top three pharmaceutical company and three further clients in H2

Phil Reason, CEO of Instem plc, commented: "The Group has continued to increase its share of the preclinical market and made important strategic progress including expansion of its product sets and entry into the early phase clinical market. The increase in new SaaS deals signed in the year is particularly pleasing. Our SaaS offer is compelling for clients and provides the Group with increasing long-term revenue visibility.

"Instem, like other pharmaceutical services companies, is beginning to see an improvement in its end markets, with the global pharmaceutical market re-focusing its efforts into early stage development work. In addition, the industry's regulatory and fiscal pressures continue to work in Instem's favour, driving demand for all areas of our product portfolio.

"With the benefit of a full year's contribution from both the Instem Clinical and more recent Perceptive Instruments acquisitions, we look forward to 2014 with confidence."

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About Instem

Instem is a leading supplier of IT applications to the early development healthcare market delivering compelling solutions for data collection, management and analysis across the R&D continuum. Instem applications are used by customers worldwide, meeting the rapidly expanding needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products.

Instem's established portfolio of software solutions increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem supports over 400 clients through full service offices in the United States, United Kingdom and China with additional locations in India and a full service distributor based in Japan.

To learn more about Instem solutions and its mission, please visit www.instem.com or its investor centre http://investors.instem.com/

Chairman's Statement

During the year, Instem successfully continued its dual strategy of both increasing its market share and extending its product portfolio. In particular the two acquisitions successfully completed in the year were important examples of the execution of this strategy. Behind the scenes the Group has also invested in strengthening its management resources to ensure that it has the capacity to continue to implement its strategic plans.

Instem has again proven to be the leading supplier in the preclinical market place, extending its footprint with existing clients and across the industry as a whole. Of great importance, and testimony to the quality of our people and our products, was the decision of the NIEHS to use Provantis as the cornerstone IT system for its National Toxicology Program in the USA. In addition, several strategically important contracts were gained, including both existing and new clients choosing Instem's preferred SaaS deployment strategy. It was particularly pleasing to see uptake by industry elites across the entirety of our product set.

The first of two acquisitions made in the year was Logos Technologies (now rebranded Instem Clinical) which was acquired in May. This acquisition has enabled Instem to make an important strategic step into the adjacent early phase clinical market. During the seven months as part of the Instem Group, the Board was delighted that Instem Clinical was able to exceed its plans. Instem Clinical is now fully integrated within the Group and we are starting to see the market benefits of it being part of a larger business.

In November the Group completed its second acquisition in the period, purchasing Perceptive Instruments, a business that provides world-leading software and hardware solutions supporting in vitro research and development within the broad life sciences market. We believe the acquisition will particularly enhance our offering in the preclinical market. As the acquisition was late in the year, it had little impact on our 2013 performance.

As outlined in the January Trading Update, although overall order intake in 2013 was encouraging, particularly in the latter half of the year, contractual discussions regarding a significant contract remained ongoing at the year-end, consequently affecting the overall 2013 revenue and profits performance. Whilst there is clear potential for consolidation within the fragmented supplier base, our priority during 2014 will be to maximise the synergistic benefit created for Instem Clinical and Perceptive Instruments as a result of being part of the Instem Group. Nevertheless, should appropriate strategic opportunities arise during the year every effort will be made to achieve further consolidation.

The pharmaceutical market continues to undergo structural changes, and once again this created some uncertainty that impacted client purchasing decisions during the year. There have, however, been nascent signs of a recovery. Pharmaceutical companies are prioritising investment in early stage drug development and the sector outlook for 2014 is improving.

The Board believes that the significant progress achieved during the year continues to provide the necessary platform for growth, both organic and through further selective acquisitions.

David Gare
Non Executive Chairman
26 March 2014

Operational Review

The breadth of Instem's business has grown significantly over the past year, as the portfolio of leading products for the early development healthcare market has been expanded through organic and acquisitive activity. Instem continues to service many of the world's leading pharmaceutical organisations and laboratories, providing the tools to streamline processes within the industry whilst significantly reducing costs.

As well as securing customers for traditional licences, Instem also saw further uptake of its software deployed via the SaaS business model, which is proving to be an increasingly compelling value proposition for organisations of all sizes. Total SaaS revenue for 2013 was up 35% to £1.5m (2012: £1.1m). This, in conjunction with annual licence renewals, continues to provide the Group with strong forward visibility. Recurring revenues for the year, including SaaS and support and maintenance revenues, amounted to 72% of total revenues (2012: 70%).

Strategic acquisitions enhance product offering and expand addressable market

The IT supplier market is highly fragmented and Instem's customer base has indicated its preference to purchase software from a smaller number of core providers, such as Instem. There is a need to consolidate this disparate supplier landscape and enhance data integration amongst and between the customer bases.

Instem has an impressive and longstanding customer list of leading global pharmaceutical, chemical, academic and government research organisations. Instem is ideally positioned with its international sales model and geographical presence to sell additional products to these customers, either through third-party licensing agreements or acquired technology. In the year, Instem has expanded its range of products through the acquisitions of two complementary technology companies.

In May 2013, Instem acquired London-based Logos Technologies and its ALPHADAS software suite. The initial consideration paid amounted to £0.55 million with additional consideration of up to £4.45 million payable through a mixture of cash and shares dependent on profit related targets over the first four years. The first earn-out payment of £0.45 million was made following the period end, comprising £0.2 million in cash and £0.25 million through the issue and allotment of new ordinary shares.

November 2013 marked Instem's entrance into the in vitro R&D marketplace through the acquisition of Perceptive Instruments for an initial cash amount of £1.0 million net of cash acquired, and an additional £0.3 million earn-out, contingent on the performance of the business. The integration of Perceptive Instruments is progressing well.

Both acquisitions are complementary to Instem's product portfolio and are expected to provide additional cross-selling opportunities with existing and new clients.

Product Portfolio

Instem has continued to increase its reach with existing clients and expand the number of clients it serves. Instem offers software via perpetual licences and term-based subscriptions, and is seeing strong growth in demand for its SaaS model.

Provantis

Provantis is the leading product for the management of study data in the preclinical drug safety assessment market and it has continued a strong performance throughout the year generating further sales and maintaining a very high renewal rate for recurring revenues.

In February 2013, Instem won a significant US Government contract with the National Institute of Environmental Health Sciences (NIEHS) to support National Toxicology Program studies. During the year this contract was extended to enable two additional contract laboratories to utilise Provantis. Other significant client wins included a multi-site North American and European CRO and further clients in India and China.

Provantis continued to generate a steady stream of additional revenue from current clients who licensed additional modules from the suite, increased their user licensing and upgraded to later versions. The large Provantis client base also provides avenues for cross-selling of complementary third party products such as Logbook and ACIS.

Centrus

Centrus is Instem's software suite for the exchange, aggregation, collation and reporting of early drug development information. Modules associated with the US FDA sponsored Standard for the Exchange of Non-Clinical Data (SEND) have proved particularly successful. In May 2013, a world leading healthcare company purchased the complete Centrus software suite, with four further clients purchasing SEND related modules during 2013, including a top three pharmaceutical company. Centrus submit™ was also recognised for innovation and industry leadership at the 2013 SmartCEO VOLTAGE Awards.

A number of important new modules have been added to the Centrus suite; these offer opportunities for additional sales with existing customers and make the offer more compelling for new clients. Instem is pleased to report that momentum for Centrus seen in the final quarter of the year has continued into 2014.

ALPHADAS

Instem's solution for the early phase clinical market, ALPHADAS, has performed well in the year and has generated strong order intake. The first new contract for Instem Clinical, post-acquisition, was a perpetual licence with Retroscreen Virology Group plc (AIM: RVG), a virology healthcare business that recently floated on AIM. The Retroscreen project progressed well during 2013 and in December Retroscreen exercised an option in the contract to extend ALPHADAS licensing for additional sites. In December 2013, Simbec Research selected ALPHADAS for deployment in its UK-based Phase I unit.

ALPHADAS version 6 was released during the year, enabling upgrades within the existing customer base and enhancing Instem's competitive position for new product opportunities within the wider early phase clinical market.

Instem Scientific

The re-use of scientific data is an increasing market within the life sciences industry. Instem Scientific's products are designed to enable clients to leverage large volumes of public and proprietary historic data, to enable considerable value to be unlocked from prior research investments. Instem routinely leads or participates in industry groups focused on the challenges and opportunities in this area and in September 2013 Gordon Baxter, Instem's Chief Scientific Officer, was appointed to the Board of one leading industry body, the Pistoia Alliance.

Instem completed the development and launch of the next version of the SRS Data integration platform (version 8.4) in early July 2013, further enhancing our clients' abilities to identify patterns and trends in their data and generate new knowledge and scientific insight. Two new clients for SRS were added in the period.

New versions of Omniviz, an advanced visualisation and data projection solution, were also released in the year. This contributed to securing several additional licence purchases from existing customers and a number of new clients.

Perceptive Instruments ("Perceptive")

Perceptive was acquired to enhance Instem's Study Workflow and Automation Suites. The integration of Perceptive is underway and progressing according to plans with Perceptive making a minimal, five-week contribution to the 2013 fiscal year. Development focus during 2013 was on a new product, Cyto Study Manager, which we plan to launch in the first half of 2014. The majority of potential clients for Cyto Study Manager are existing Perceptive or Instem customers.

Market Overview

Over recent years the pharmaceutical industry has focused work on drugs in late stage development in an attempt to fill the gap from lost revenues on patent expired drugs. Recently, there have been signs that the global pharmaceutical market is moving resource towards early stage development work to refill the pipeline of preclinical candidates. This is a key development given the Group's position within the early stage development market.

As a consequence, Instem and its pharmaceutical services clients that target the earlier stages of drug development, are beginning to see an improvement in end markets. Citeline®, which claims the world's most comprehensive source of real-time R&D intelligence for the pharmaceutical industry, recently reported a 7.9% increase in the global drug pipeline.

Two key aspects are increasing demand for IT solutions. Firstly, there is an increased preference for regulatory authorities to receive data for new drug submissions electronically. Secondly, there is a growing appetite from pharmaceutical organisations to analyse and mine historic data in order to extract further value and generate additional scientific insight from development work already carried out.

PreClinical market

There is evidence of a more sustained recovery in the preclinical market, including data from the two largest preclinical CROs, Charles River and Covance, who have both reported greater growth and optimism in recent results announcements.

While there were only modest additions of new commercial clients in 2013, Instem's preclinical business benefitted from increased demand from governmental customers. In February 2013, Instem won a contract with the US government NIEHS with a cash value of US$870,000 in the first year, with a potential to extend and expand the agreement up to a further nine years, giving a possible total contract value of between US$6.2 million – US$7.6 million.

Early Stage Clinical market

The early stage clinical market is immediately downstream of preclinical and consequently has also witnessed reduced study volumes in recent years. However, a growing prevalence of patient studies in early phase clinical, to complement the widespread use of healthy volunteers, is extending trial sites into hospital units and increasing the importance of controlling data quality and integrity through the deployment of IT solutions. These factors together with the relatively low levels of automation in early phase clinics have ensured that many opportunities remain for software solutions to gain greater penetration.

Government

Governments in North America, China and Europe are expanding investment in order to: prime advances in basic research, advance therapies with important social needs (but limited return to commercial organisations) and generally improve environmental health. This is of particular importance as such organisations frequently operate on a different economic cycle to the commercial pharmaceutical industry.

Government agencies are indirectly supporting investment in Instem technologies through funding a wide variety of commercial organisations and research institutes as well as purchasing solutions directly for their government research facilities. Through this, Instem's products can also be mandated by authorities for use by third parties involved in public sector programmes.

Growth Strategy

Instem will continue to focus on growing organically through further penetration of existing product suites into pharmaceutical organisations, CROs and research institutions. The Company's aim is to increase recurring revenues and growth by maintaining market leadership with established product suites and introducing new solutions organically, acquisitively and through exclusive third party arrangements, which satisfy an ever increasing proportion of the early drug development market.

The approaching deadline for the requirement to submit SEND data sets presents an important opportunity for Centrus. The growing need for the management of 'Big Data' represents an opportunity for Instem Scientific as companies look to mine large amounts of historical data for the generation of scientific insight.

The trend, where large pharmaceutical organisations prefer to select a smaller number of strategic providers for their research software needs, continues to be the key focus of the Company's acquisition strategy. The Company will continue to selectively pursue additional bolt-on acquisitions that provide access to adjacent markets and additional growth prospects.

Financial Review

The financial results demonstrate a solid performance in the year with total revenues at £11.4m (2012: £10.7m). As described in the Chairman's Statement, although market conditions were challenging and resulted in the delay in one particularly significant perpetual licence, there are nascent signs of a recovery in end markets. Growth in revenues was principally driven from the UK, with an increase from £1.3m in 2012 to £2.5m, driven by new business orders for ALPHADAS received from Retroscreen Virology,

Instem's business model consists of perpetual licence fees, annual support, SaaS subscriptions and professional services. Approximately 72% of revenue was recurring in nature (2012: 70%), principally from annual support fees and SaaS subscriptions, with a small contribution from professional fees.

The Company continues to generate the majority of its revenue in US dollars and therefore we continued to hedge against currency fluctuations. In the period the average exchange rate was $1.5707/£1.00 compared with an average exchange rate in 2012 of $1.5888/£1.00.

The profit from operations before amortisation on acquired intangibles, share based payment and non-recurring costs for the year was £1.5m (2012: £1.3m). Operating expenses, comprising primarily salary costs, increased by £0.5m in the year reflecting the two acquisitions during the year.

Amortisation increased due to the acquisitions to £0.6m (2012: £0.4m)

Development costs incurred in the period were £1.8m (2012: £1.7m), of which £0.3m was capitalised (2012: £0.3m).

Non-recurring costs of £0.2m include legal and professional fees associated with the two completed acquisitions during the year.

There was an increase in the funding deficit on the Company's defined benefit pension scheme during the period calculated in accordance with the provisions of IAS19 that amounted to £0.6m, net of deferred tax (2012: £1.4m), which has been recognised in Other Comprehensive Expense. This was a non-cash charge in the period and arose primarily as a result of higher inflation rates used for calculation of the liabilities, partially offset by higher expected returns on assets. As part of the scheme's triennial actuarial valuation as at 5 April 2011, the Company has agreed a schedule of payments to the scheme with the trustees and the Pensions Regulator that is designed to eliminate the funding deficit over an eight year period. The defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008.

Cash generated from operations was £2.0m (2012: £0.4m). The Group had cash reserves of £2.1m as at 31 December 2013, compared with £2.5m as at 31 December 2012, after making initial payments (net of cash acquired) for the two acquisitions during the year of £1.6m.

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

Outlook

The past year has seen the Group continue to increase its share of the preclinical market and make important strategic progress including expansion of its product sets and entry into the early phase clinical market. The increase in new SaaS deals signed in the year is particularly pleasing. Our SaaS offer is compelling for clients and provides the Group with increasing long-term revenue visibility.

Instem, like other pharmaceutical services companies, is beginning to see an improvement in its end markets, with the global pharmaceutical market re-focusing its efforts into early stage development work. In addition, the industry's regulatory and fiscal pressures continue to work in Instem's favour, driving demand for all areas of our product portfolio.

With the benefit of a full year's contribution from both the Instem Clinical and more recent Perceptive Instruments acquisitions, we look forward to 2014 with confidence.

Phil Reason
Chief Executive
26 March 2014

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2013

Continuing Operations	Note	**Year ended 31 December 2013 £000**	Year ended 31 December 2012 £000
REVENUE	2	**11,361**	10,661
Operating expenses		**(9,685)**	(9,157)
Amortisation of internally generated intangibles		**(226)**	(164)
PROFIT FROM OPERATIONS BEFORE AMORTISATION, SHARE BASED PAYMENT AND NON-RECURRING COSTS		**1,450**	1,340
Amortisation of intangibles arising on acquisition		**(394)**	(233)
Share based payment		**(96)**	(86)
PROFIT BEFORE NON-RECURRING COSTS		**960**	1,021
Non-recurring (costs)/income		**(200)**	137
PROFIT FROM OPERATIONS		**760**	1,158
Finance income		**145**	238
Finance costs		**(207)**	(144)
PROFIT BEFORE TAXATION		**698**	1,252
Income tax	3	**(169)**	(208)
PROFIT FOR THE YEAR		**529**	1,044
OTHER COMPREHENSIVE EXPENSE			
Actuarial loss on retirement benefit obligations		**(587)**	(1,833)
Deferred tax on actuarial loss		**30**	389
Exchange differences on translating foreign operations		**(90)**	(189)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(647)**	(1,633)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(118)**	(589)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**529**	1,044
TOTAL COMPREHENSIVE EXPENSE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**(118)**	(589)
Earnings per share from continuing operations			
Basic	5	**4.5p**	8.9p
Diluted	5	**4.5p**	8.9p

Consolidated Statement of Financial Position
As at 31 December 2013

	31 December 2013		31 December 2012	
ASSETS	**£000**	**£000**	£000	£000
NON-CURRENT ASSETS				
Intangible assets	**12,887**		8,034	
Property, plant and equipment	**265**		187	
Deferred tax assets	**388**		732	
TOTAL NON-CURRENT ASSETS		**13,540**		8,953
CURRENT ASSETS				
Inventories	**307**		90	
Trade and other receivables	**2,908**		3,750	
Current tax assets	**-**		235	
Cash and cash equivalents	**2,053**		2,450	
TOTAL CURRENT ASSETS		**5,268**		6,525
TOTAL ASSETS		**18,808**		15,478
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	**7,236**		7,037	
Current tax payable	**7**		-	
Financial liabilities	**1,250**		250	
TOTAL CURRENT LIABILITIES		**8,493**		7,287
NON-CURRENT LIABILITIES				
Financial liabilities	**1,836**		-	
Retirement benefit obligations	**3,506**		3,196	
TOTAL NON-CURRENT LIABILITIES		**5,342**		3,196
TOTAL LIABILITIES		**13,835**		10,483
EQUITY				
Share capital	**1,176**		1,176	
Share premium	**7,892**		7,892	
Merger reserve	**(932)**		(932)	
Shares to be issued	**270**		174	
Translation reserve	**194**		284	
Retained earnings	**(3,627)**		(3,599)	
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**4,973**		4,995
TOTAL EQUITY AND LIABILITIES		**18,808**		15,478

Consolidated Statement of Cashflows
For the year ended 31 December 2013

	Year ended 31 December 2013		Year ended 31 December 2012	
	£000	**£000**	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**698**		1,252	
Adjustments for:				
Depreciation	**187**		158	
Amortisation of intangibles	**620**		397	
Share based payments and shares to be issued	**96**		86	
Adjustments to contingent consideration	**-**		(241)	
Retirement benefit obligations	**(412)**		(337)	
Net foreign exchange gains	**84**		219	
Finance income	**(145)**		(238)	
Finance costs	**207**		144	
		1,335		1,440
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL				
Movements in working capital:				
Increase in inventories	**(210)**		-	
Decrease/(Increase) in trade and other receivables	**823**		(953)	
Increase/(Decrease) in trade and other payables	**31**	**644**	(63)	(1,016)
CASH GENERATED FROM OPERATIONS		**1,979**		424
Finance costs	**(9)**		(60)	
Income taxes	**74**	**65**	(442)	(502)
NET CASH GENERATED FROM/(USED) IN OPERATING ACTIVITIES		**2,044**		(78)
CASH FLOWS FROM INVESTING ACTIVITIES				
Finance income received	**61**		19	
Purchase of intangible assets	**(407)**		(328)	
Purchase of property, plant and equipment	**(262)**		(158)	
Disposal of property, plant and equipment	**-**		-	
Acquisition of subsidiaries	**(2,710)**		(86)	
Cash acquired with subsidiaries	**1,134**		-	
NET CASH USED IN INVESTING ACTIVITIES		**(2,184)**		(553)
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan notes repaid	**(250)**		(250)	
NET CASH USED IN FINANCING ACTIVITIES		**(250)**		(250)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(390)**		(881)
Cash and cash equivalents at start of year		**2,450**		3,368
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(7)**		(37)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,053**		2,450

Consolidated Statement of Changes in Equity

	Called up 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 1 January 2012	1,171	7,813	(932)	88	473	(3,199)	5,414
Profit for the year	-	-	-	-	-	1,044	1,044
Other comprehensive expense for the year	-	-	-	-	(189)	(1,444)	(1,633)
Share based payment			-	86	-	-	86
Shares Issued	5	79	-	-		-	84
Balance at 31 December 2012	1,176	7,892	(932)	174	284	(3,599)	4,995
Profit for the year	-	-	-	-	-	529	529
Other comprehensive expense for the year	-	-	-	-	(90)	(557)	(647)
Total comprehensive expense	-	-	-	-	(90)	(28)	(118)
Share based payment	-	-	-	96	-	-	96
Balance as at 31 December 2013	**1,176**	**7,892**	**(932)**	**270**	**194**	**(3,627)**	**4,973**

Notes to the Financial Statements

1. Basis of Preparation

FINANCIAL INFORMATION

The preliminary financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 but is derived from accounts for the years ended 31 December 2013 and 31 December 2012. The figures for the year ended 31 December 2012 were audited. The preliminary financial information is prepared on the same basis as will be set out in the statutory accounts for the year ended 31 December 2013. The figures for the year ended 31 December 2013 are unaudited.

The preliminary financial information was approved for issue by the Board of Directors on 25 March 2014.

The statutory accounts for the year ended 31 December 2013 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. Statutory accounts for the year ended 31 December 2012 have been filed with the Registrar of Companies. The auditor’s report on those 2012 accounts was unqualified and did not contain any statement under Section498 (2) or (3) of the Companies Act 2006.

GENERAL INFORMATION

The principal activity of the Group is the provision of world class information solutions for Life Sciences research and development. Instem plc is a company incorporated in England and Wales under the Companies Act 2006 and domiciled in the UK. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD.

BASIS OF ACCOUNTING

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), this announcement does not in itself contain sufficient information to comply with IFRSs.

The Group’s accounting reference date is 31 December.

GOING CONCERN

Having made appropriate enquiries, the directors consider that the Group has adequate resources to enable it to continue in operation for the foreseeable future. The Group has a significant proportion of recurring revenue from a well-established global customer base, supported by a largely fixed cost base.

The financial position of the Group, its cash flows and liquidity position are set out in the primary statements of this financial information. Detailed projections have been made for the 12 months following the approval of the financial statements and sensitivity analysis undertaken. This work gives the directors confidence as to the future trading performance.

Accordingly the directors continue to adopt the going concern basis for the preparation of the financial statements.

2. Segmental Reporting

For management purposes, the Group is currently organised into one operating segment – Global Life Sciences.

Segment results, assets and liabilities include items directly attributable to a segment as well as those than can be allocated on a reasonable basis.

	THIRD PARTY REVENUE	
	2013	2012
	£000	£000
INFORMATION BY PRODUCT TYPE		
Licence fees	**2,282**	1,775
Annual support fees	**6,307**	6,188
SaaS subscription fees	**1,543**	1,141
Professional services	**1,175**	1,373
Funded development initiatives	**54**	184
	11,361	10,661

	THIRD PARTY REVENUE	
	2013	2012
	£000	£000
INFORMATION BY GEOGRAPHICAL LOCATION		
UK	**2,496**	1,311
Rest of Europe	**1,991**	2,147
USA and Canada	**5,871**	6,135
Rest of World	**1,003**	1,068
	11,361	10,661

	NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION	
	2013	2012
	£000	£000
INFORMATION BY GEOGRAPHICAL LOCATION		
UK	**13,120**	8,183
USA and Canada	**14**	29
Rest of World	**18**	9
	13,152	8,221

MAJOR CUSTOMERS

The Group generates external revenue from no customer which individually amounts to more than 10% of the Group revenue (2012: one such customer generated revenues of £1.1m).

3. Income Taxes

	2013	2012
Income taxes recognised in profit or loss	**£000**	£000
Current tax:		
UK corporation tax on profits of the year	**42**	179
Double tax relief	**-**	(109)
Foreign tax	**147**	224
Foreign tax in respect of previous years	**(227)**	-
Adjustments in respect of previous years	**121**	27
Adjustments in respect of R&D tax credit	**-**	(50)
Total current tax	**83**	271
Deferred tax:		
Current year charge	**11**	-
Origination and reversal of temporary differences	**-**	(38)
Adjustment in respect of previous years	**11**	(83)
Retirement benefit obligation	**64**	58
Total deferred tax	**86**	(63)
Total income tax recognised in the current year	**169**	208

	2013	2012
	£000	£000
The income tax expense can be reconciled to the accounting profit as follows:		
Profit before tax	**698**	1,252
Profit before tax multiplied by standard rate of corporation tax in the UK 23.25% (2012: 24.5%)	**162**	307
Effects of:		
Expenses not deductible for tax purposes	**52**	29
Fixed asset timing differences	**1**	-
Differences in overseas tax rates	**63**	110
Adjustments in respect of prior years	**(97)**	(106)
Tax losses utilised in respect of subsidiaries	**(15)**	(73)
Tax losses carried forward	**3**	-
Non-taxable income	**-**	(59)
Total income tax expense recognised in profit or loss	**169**	208

4. Acquisitions of Instem Clinical Holdings Limited (formerly Logos Holdings Limited) and Perceptive Instruments Limited

Subsidiary acquired

2013	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration transferred £000
Instem Clinical Holdings Limited (formerly Logos Holdings Limited)	Holding of intellectual property rights and investment in group companies	10 May 2013	100	3,298

Instem Clinical Holdings Limited was acquired to continue the expansion and development of the Group's capabilities in the Global Life Sciences sector.

Consideration transferred

	Instem Clinical Holdings Limited £000
Initial cash consideration (including £25k stamp duty)	575
Contingent consideration – Payable in cash	200
Contingent consideration – To be settled in shares	250
Contingent consideration – To be settled in cash or shares	2,273
Total consideration estimate	3,298

The contingent consideration is based on certain cumulative performance related conditions over four years.

Acquisition related costs amounting to £98,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Non-recurring costs' line item in the consolidated statement of comprehensive income.

Fair value of assets acquired and liabilities recognised at the date of acquisition

	Instem Clinical Holdings Limited £000
Non-Current Assets	
Goodwill	-
Intellectual property	964
Customer related assets	105
Investment in subsidiaries	1
Property, plant and equipment	1
Deferred Tax on losses brought forward	158
Current Assets	
Trade and other receivables	54
Cash and cash equivalents	22
Current Liabilities	
Trade and other payables	(243)
Non-Current Liabilities	
Deferred Tax on acquisition	(246)
Fair value of identifiable net assets acquired	816

Goodwill arising on acquisition

	Instem Clinical Holdings Limited £000
Consideration transferred	3,298
Less: fair value of identifiable net assets acquired	(816)
Goodwill arising on acquisition	2,482

Goodwill arose on the acquisition of Instem Clinical Holdings Limited because the premium paid by the Company reflects the expected benefit of synergies, revenue growth and future market development. Instem Clinical Holdings Limited was acquired to expand and enhance the Group's product and service offering within the Global Life Sciences operating segment. These benefits have not been recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition

	Instem Clinical Holdings Limited £000
Consideration paid in cash	(575)
Less: cash and cash equivalent balances acquired	22
Net cash outflow	(553)

Impact of acquisition on the results of the Group

Included in the profit for the year is £581,000 attributable to the additional business generated by Instem Clinical Holdings Limited. Revenue for the year includes £1,340,000 in respect of Instem Clinical Holdings Limited.

Had this business combination been effected at 1 January 2013, the revenue of the Group from continuing operations would have been £1,418,000, and the profit for the year from continuing operations would have been £297,000.

Subsidiary acquired

2013	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration transferred £000
Perceptive Instruments Limited	Holding of intellectual property rights.	21 November 2013	100	2,435

Perceptive Instruments Limited was acquired to continue the expansion and development of the Group's capabilities in the Global Life Sciences sector.

Consideration transferred

	Perceptive Instruments Limited £000
Initial cash consideration	2,085
Contingent consideration – Payable in cash	300
Deferred consideration – Payable in cash	50
Total consideration estimate	2,435

The contingent consideration is based on performance related conditions over one year.

Acquisition related costs amounting to £73,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Non-recurring costs' line item in the consolidated statement of comprehensive income.

Fair value of assets acquired and liabilities recognised at the date of acquisition

	Perceptive Instruments Limited £000
Non-Current Assets	
Goodwill	-
Intellectual property	439
Customer related assets	527
Property, plant and equipment	4
Current Assets	
Inventories	17
Trade and other receivables	99
Cash and cash equivalents	1,112
Current Liabilities	
Trade and other payables	(109)
Non-Current Liabilities	
Deferred Tax on acquisition	(203)
Fair value of identifiable net assets acquired	1,886

Goodwill arising on acquisition

	Perceptive Instruments Limited £000
Consideration transferred	2,435
Less: fair value of identifiable net assets acquired	(1,886)
Goodwill arising on acquisition	549

Goodwill arose on the acquisition of Perceptive Instruments Limited because the premium paid by the Company reflects the expected benefit of synergies, revenue growth and future market development. Perceptive Instruments Limited was acquired to expand and enhance the Group's product and service offering within the Global Life Sciences operating segment. These benefits have not been recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition

	Perceptive Instruments Limited £000
Consideration paid in cash	2,085
Less: cash and cash equivalent balances acquired	(1,112)
Net cash outflow	973

Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of £7,000 attributable to the additional business generated by Perceptive Instruments Limited. Revenue for the year includes £36,000 in respect of Perceptive Instruments Limited.

Had this business combination been effected at 1 January 2013, the revenue of the Group from continuing operations would have been £842,000, and the profit for the year from continuing operations would have been £287,000.

5. Earnings per share

Basic earnings per share are calculated by dividing the 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.

	Profit after tax	**2013 Weighted average number of shares**	**Earnings per share**	Profit after tax	2012 Weighted average number of shares	Earnings per share
	£000	**'000**	**Pence**	£000	'000	Pence
Earnings per share – Basic	**529**	**11,765**	**4.5**	1,044	11,755	8.9
Potentially dilutive shares	**-**	**15**	**-**	-	-	-
Earnings per share - Diluted	**529**	**11,780**	**4.5**	1,044	11,755	8.9

Copies of the Annual Report and Accounts are to be posted to the Company's shareholders and will be available on Instem's website at http://investors.instem.com