19 September 2012
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Instem plc
(“Instem”, the “Company” or the “Group”)

Unaudited Interim Results

Instem plc (AIM: INS.L), a leading provider of IT applications to the global early development healthcare market, announces its unaudited interim results for the six months ended 30 June 2012.

Financial Highlights

- Revenues steady at £4.9m (H1 2011: £4.9m)
    - Recurring revenues accounted for 74% of total (H1 2011: 70%)
    - Software-as-a-Service (SaaS) revenue up 21% to £0.6m (2011: £0.5m)
- Operating profit before amortisation, share based payment and non-recurring items £0.3m (H1 2011: £0.6m)
- Basic earnings per share (0.1)p (H1 2011: 1.1p)
- Seasonal operating cash outflow of £1.2m (H1 2011: £1.4m)
- Closing cash balance as at 30 June 2012 of £1.8m (H1 2011: £1.3m)

Operational Highlights

- New contracts include a leading pharma in Japan, Advinus Therapeutics and Lupin Limited in India, and licence extensions with several Contract Research Organisations in the US and Europe
- Customer retention rate remained strong at over 95%
- Released Provantis® version 9 in July 2012, the final major release in a multi-year migration of the Provantis suite to the latest technology platform
- Strong pipeline of customer opportunities for both Provantis® (pre- and non-clinical studies) and Centrus™ (data access and harmonization)

Phil Reason, CEO of Instem plc, commented:

“Instem has started the second half of the year in line with management expectations, as reflected in the Company’s trading update issued 26 July 2012, and we are confident of being strongly cash positive in the second half.

“The breadth of the Company’s Provantis and Centrus suites, combined with its extensive geographical reach, blended SaaS and traditional licence model continue to be key competitive differentiators. Instem is currently working on multiple contract opportunities, from both new and existing customers. These are predominantly in the US market, but also within the European market which is starting to show initial signs of recovery following a difficult 2011 in which several large European research facilities were closed.

“Overall, while the Board remains cautious regarding the timing of deal flow, it is optimistic about the medium to long-term prospects for the business which remains well positioned to benefit from the trends in its end markets towards multi-site, collaborative and outsourced R&D.”

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About Instem plc

Instem is a leading supplier of IT solutions to the early development healthcare market. Instem's pre-clinical study management solutions accelerate drug and chemical development by increasing productivity, automating processes and enhancing practices that lead to safer and more effective drugs.

Instem has over 130 customers in North America, Europe, China, India and Japan, including 16 of the top 20 pharmaceutical and biotech companies such as GlaxoSmithKline and AstraZeneca. The Group employs over 110 people in seven offices in the US, UK, China and India; and has a full service distributor in Japan. It is estimated that approximately half of the world's pre-clinical drug safety data has been collected over the last 20 years via Instem software, making Instem an ideal partner to help unlock the scientific/commercial value from these legacy repositories.

To learn more about Instem please visit the Company's website, www.instem.com, or its investor centre http://investors.instem.com/.

Chairman's Statement

While the results are lower than management's original expectations for the half, we believe that this performance has been in line with the broader pharmaceutical market. Large pharma in particular continues to go through a period of major structural change. The uncertainty this creates means that clients and prospects have tended to defer investment decisions. Nonetheless, we believe we have continued to win the majority of business placed in our market and the Board is confident that underlying demand for Instem's solutions remains strong.

Several large, multi-site prospects are in the pipeline and, in several instances, selection decisions have already been made in Instem's favour by prospective customers; but order dates and final contract size remain subject to additional procurement processes.

The Group's substantial recurring revenue base continues to grow, now having reached approximately £7.4m on an annualised basis, providing a solid, profitable and cash-generative platform for the business. Renewal rates have remained high, at over 95%.

The Board believes its core Provantis and Centrus solutions are ultimately well placed to benefit from the changes to laboratory working practices, such as the growing prominence of multi-site working and outsourcing, as well as the adoption of new standards. Significant customer benefits, enhanced revenue opportunities and reduced costs resulting from the completion of the last major phase of the redevelopment of the core Provantis® product suite during 2012 are expected to contribute positively to future business performance.

Overall, while the Board remains cautious regarding the timing of contract flow, it is confident in the medium to long-term prospects for Instem, which remains well positioned to benefit from the strategic trends in its end markets towards multi-site, collaborative and outsourced R&D.

David Gare
Chairman
19 September 2012

Operational Review

Although results for the period were impacted by the continued uncertainty and budgetary restraints that are on-going within the Pharmaceutical market, Instem has continued to make good progress at an operational level, securing new customers, extending licences within existing customers and maintaining high renewal rates. We have already delivered a significantly enhanced release of Provantis in the second half of the year.

Customer update

We are confident that Instem continues to outperform its competitors in product evaluations. Instem's ability to provide support for all geographic areas and offer our software via either the SaaS or traditional licence model means we are well placed to tender for current opportunities globally.

Two Indian contracts

The Group's Indian operations were successfully launched in the first half of the year, providing Instem with the ability and flexibility to scale-up development resources in the region in response to demand. This local presence will also be beneficial as we implement two contracts secured in the first half of 2012: Advinus Therapeutics, an existing customer, is upgrading and further extending its use of Provantis, and Lupin Limited selected Provantis to automate study processes at its Global R&D hub in Pune.

Japanese customer win

Instem extended its presence in Japan, securing a contract with one of Japan's leading research-oriented global pharmaceutical companies, which purchased the Provantis preclinical software solution for its Osaka R&D facility, following a competitive evaluation. A comprehensive suite of modules was purchased to support the areas of General Toxicology, Reproductive Toxicology, Pathology and Pharmacy.

Customer extensions at CROs

Several of Instem's smaller US and European Contract Research Organisation (CRO) customers added Provantis user and module licences during the period. This is a good indicator that the smaller end of the market may be seeing a sustainable return to growth.

Instem Scientific

Instem Scientific, our team focused on information solutions for translational science, enjoyed a high rate of recurring revenue renewal across all product lines reflecting the strong long-term partnerships with its life science customers. Post period end, Instem Scientific added another blue-chip client, DuPont, who became the latest customer of our large scale data integration platform SRS™.

Instem Scientific's solutions are now being purchased in conjunction with our other products and we successfully completed the first integrated project with Instem's Study Management solutions in the period, through the delivery of the new Provantis Portal module to The Jackson Laboratory.

Instem Scientific and Apelon, the international informatics company, extended their partnership to deploy advanced technology for patient-focused clinical decision support. The two businesses have worked together in previous partnerships, combining Instem's suite of taxonomic and semantic products and services with Apelon's vocabulary creation expertise to deliver unique solutions for pharmaceutical R&D and the wider healthcare IT market.

This blend of Instem technology and Apelon's scientific management services will enhance the effectiveness of drug prescribing by healthcare clinicians, improve patient outcomes and lower the costs of care. Pharmaceutical organisations will also benefit from the availability of data which was previously inaccessible.

Increasing competitive strength of the product set

Instem continued to add to the competitive differentiation of the Provantis suite during the first half of the year. One such new development was the release of Provantis Portal, a web portal predominantly for CROs to deliver Provantis managed study data to their clients in a secure manner. In addition, a partnership was secured with Trimetra for its Logbook software; Logbook is an Electronic Notebook and Data Collection system that can replace GLP (Good Laboratory Practice) and Non-GLP paper forms. This partnership will enable Instem's customers to replace the final extraneous paper forms that may exist in the laboratory environment, which to date have not had a natural filing location within Provantis. We are not aware of a similar product on the market and have seen a good level of interest from customers and prospective customers alike.

Instem successfully delivered Provantis 9, a major new release of its core Provantis product suite, in July 2012. The release largely completes a significant, phased multi-year product redevelopment, which supports the changes to laboratory working practices brought about by the structural changes in the pharma market and takes advantage of the latest capabilities of the underlying Microsoft® and Oracle® platform technologies. Unique Provantis capabilities that improve operational efficiency and reduce study timelines are proving key competitive differentiators.

Instem's much newer Centrus product suite is building good momentum, particularly the modules associated with the recently adopted US Food & Drug Administration sponsored Standard for the Exchange of Non-clinical Data (SEND). As pharma companies face increased regulatory scrutiny and deal with expensive drug safety litigation, there are signs that investments to achieve regulatory compliance are being prioritized, The Group's leading position in this developing area was underlined in February 2012, when Instem was recognised for its outstanding contributions to SEND at the Interchange North America event organised by CDISC, the Clinical Data Interchange Standards Consortium.

Opportunities remain to extend Instem's product and services offerings and to leverage its well established global sales, marketing and service delivery infrastructure, particularly our Software-as-a-Service platform. As clients plan their upgrades to Provantis 9, they frequently take the opportunity to consider the purchase of additional products and modules that they have not previously licensed.

Financial Review

The financial results demonstrate a solid performance in the period with total revenues steady year-on-year at £4.9m (H1 2011: £4.9m). Whilst implementation service revenues in the first half of the year benefited from a solid order book brought forward from 2011, the business as a whole has experienced slippage in expected new orders with customers deferring investment decisions on some major projects. The Group generates the majority of its revenue in US dollars, which are hedged into sterling.

The business continued to expand in developing markets with revenue from outside North America and Europe increasing to £0.6m (H1 2011: £0.4m), representing 12% of total revenue (H1 2011: 9%).

Instem's business model consists of fees for perpetual licences, annual support, SaaS subscriptions and professional services. In the period, approximately 74% (H1 2011: 70%) of revenue was of a recurring nature from annual support fees and SaaS subscriptions.

Profit from operations before amortisation, share-based payment and non-recurring costs for the period, was £0.3m (H1 2011: £0.6m). Operating expenses increased by £0.25m in the half year over the equivalent period in 2011 due to inflation and there being a full six months of Instem Scientific costs compared with four months from the date of acquisition in 2011. Amortisation increased by £0.1m over the equivalent period in 2011 reflecting the increased investment in intangibles including those assets acquired through the purchase of Instem Scientific.

Development costs incurred in the period were £0.9m (H1 2011: £0.9m), of which £0.1m were capitalised (H1 2011: £0.1m).

Non-recurring items include a charge of £0.11m in respect of legal and professional fees associated with pursuing acquisition opportunities, offset by a £0.14m write-back of provision for deferred contingent consideration in respect of Instem Scientific.

In common with many businesses with a defined benefit pension scheme, there was an increase in the funding deficit during the period calculated in accordance with the provisions of IAS19 that amounted to £1.4m (net of deferred tax), which has been recognised in Other Comprehensive Income/(Expense). This was a non-cash charge in the period and arose as a result of lower discount rates used for calculation of the liabilities and lower 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. This involves a modest increase of £0.09m in the Company's payments to the scheme, rising from £0.3m to £0.4m per annum from January 2013. The defined benefit pension scheme has remained closed to new members since 2000 and to future accrual since 2008.

Instem's cash flow is seasonal, with cash inflow being weighted to the second half of the year resulting from the number of annual fee renewals occurring at the year end. As a result of the normal working capital cycle, assisted by sales receipts in the first quarter from the orders received late in 2011, cash at the end of June 2012 was £1.8m (H1 2011: £1.3m) compared with £3.4m at December 2011. A scheduled debt repayment of £0.25m was made in the period together with a payment of £0.08m as contingent consideration relating to the performance of Instem Scientific in 2011.

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.

Principal risks and uncertainties

The principal risks and uncertainties remain unchanged from those described in our 2011 Annual Report.

Outlook

Instem has started the second half of the year in line with management's expectations, as reflected in the Company's trading update issued on 26 July 2012. The tentative signs of recovery in our global markets have been sustained and, although the Board continues to be cautious about the timing of contract flow, our pipeline remains healthy. Instem has seen growing evidence of demand for its products internationally, notwithstanding the ongoing customer delays to implementation of investment decisions.

Due to the significant levels of recurring revenue and the profile of our annual licence renewals, we are confident that the business will be strongly cash positive in the second half which will provide sufficient flexibility to support the growth of the business both through organic investment and selective acquisition opportunities.

The breadth of the Company's Provantis and Centrus suites continues to be a key competitive differentiator as does Instem's ability to offer a blended SaaS and traditional licence model. Instem is committed to continued product innovation and is confident of its leading position within the early development market, which is further bolstered by its extensive geographical reach. The Company therefore remains well positioned to benefit from the trends in its end markets towards multi-site, collaborative and outsourced R&D and the Board is confident in the future for Instem.

Phil Reason
Chief Executive
19 September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2012

	Note	Unaudited Six months ended 30 June 2012 £000	Unaudited Six months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
REVENUE		4,869	4,893	10,793
Operating expenses		(4,560)	(4,306)	(8,791)
PROFIT FROM OPERATIONS BEFORE AMORTISATION, SHARE BASED PAYMENT AND NON RECURRING INCOME/(COSTS)		309	587	2,002
Amortisation of intangibles		(245)	(154)	(347)
Share based payment		(54)	(53)	(88)
PROFIT BEFORE NON RECURRING INCOME/(COSTS)		10	380	1,567
Non-recurring income/(costs)	4	27	(106)	(21)
PROFIT FROM OPERATIONS		37	274	1,546
Finance income		286	265	422
Finance costs		(214)	(245)	(456)
PROFIT BEFORE TAXATION		109	294	1,512
Income tax expense	5	(125)	(170)	(506)
(LOSS)/PROFIT FOR THE PERIOD/YEAR		(16)	124	1,006
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Actuarial loss on retirement benefit obligations		(1,781)	(27)	(392)
Deferred tax on actuarial loss		428	7	68
Exchange differences on translating foreign operations		(113)	39	96
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD/YEAR		(1,466)	19	(228)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD/YEAR		(1,482)	143	778
(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		(16)	124	1,006
TOTAL COMPREHENSIVE (EXPENSE)/INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		(1,482)	143	778
Earnings per Share from continuing operations				
- Basic	3	(0.1)p	1.1p	8.6p
- Diluted	3	(0.1)p	1.1p	8.5p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Note	Unaudited 30 June 2012 £000	Unaudited 30 June 2011 £000	Audited 31 December 2011 £000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		7,993	8,122	8,103
Property, plant and equipment		230	142	188
Deferred tax assets		636	322	279
TOTAL NON-CURRENT ASSETS		8,859	8,586	8,570
CURRENT ASSETS				
Inventories		163	166	93
Trade and other receivables		2,238	2,275	3,029
Current tax assets		170	180	64
Cash and cash equivalents		1,848	1,332	3,368
TOTAL CURRENT ASSETS		4,419	3,953	6,554
TOTAL ASSETS		13,278	12,539	15,124
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		5,636	5,253	7,594
Derivative financial instrument		25	-	-
Current tax liabilities		123	-	-
Financial liabilities		250	1,020	250
TOTAL CURRENT LIABILITIES		6,034	6,273	7,844
NON-CURRENT LIABILITIES				
Financial liabilities		-	241	250
Retirement benefit obligations	6	3,172	1,281	1,616
TOTAL NON-CURRENT LIABILITIES		3,172	1,522	1,866
TOTAL LIABILITIES		9,206	7,795	9,710
EQUITY				
Share capital		1,177	1,171	1,171
Share premium		7,893	7,813	7,813
Merger reserve		(932)	(932)	(932)
Shares to be issued		142	53	88
Translation reserve		360	416	473
Retained earnings		(4,568)	(3,777)	(3,199)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		4,072	4,744	5,414
TOTAL EQUITY AND LIABILITIES		13,278	12,539	15,124

CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2012

	Unaudited Six months ended 30 June 2012 £000	Unaudited Six months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Result before taxation	109	294	1,512
Adjustments for:			
Depreciation	28	36	116
Amortisation of intangibles	245	154	347
Profit on disposal of property, plant and equipment	-	-	(14)
Adjustment to consideration	(141)	-	(80)
Share based payments and shares to be issued	54	53	88
Retirement benefit obligations	(265)	(251)	(245)
Net foreign exchange gains	-	-	88
Finance income	(286)	(265)	(422)
Finance costs	214	245	456
Forward contract valuation movement	25	12	-
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL	(17)	278	1,846
Changes in working capital:			
(Increase)/decrease in inventories	(70)	(29)	47
Decrease/(increase) in trade and other receivables	573	(549)	(1,230)
(Decrease)/increase in trade and other payables	(1,639)	(1,082)	679
CASH (USED IN)/GENERATED FROM OPERATIONS	(1,153)	(1,382)	1,342
Finance costs	(174)	(211)	(362)
Income tax paid	(37)	(207)	(478)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(1,364)	(1,800)	502
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income received	286	265	300
Income tax paid	-	(153)	-
Purchase of intangible assets	(25)	(117)	(291)
Purchase of property, plant and equipment	(70)	(11)	(152)
Acquisition – cash consideration	(82)	-	-
Disposal of property, plant and equipment	-	-	30
Acquisition of subsidiary	-	(200)	(200)
Cash acquired with subsidiary	-	141	141
NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES	109	(75)	(172)
CASH FLOWS FROM FINANCING ACTIVITIES			
Series “A” Loan notes repaid	-	(44)	(253)
Loan repayments	(250)	-	-
Payment of finance lease liabilities	-	(3)	-
NET CASH USED IN FINANCING ACTIVITIES	(250)	(47)	(253)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,505)	(1,922)	77
Cash and cash equivalents at start of year	3,368	3,263	3,263
Effect of exchange rate changes on the balance of cash held in foreign currencies	(15)	(9)	28
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	1,848	1,332	3,368

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2012

	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 2011	1,171	7,813	(932)	-	377	(3,881)	4,548
Profit for the period	-	-	-	-	-	124	124
Other comprehensive income/(expense)	-	-	-	-	39	(20)	19
Share based payment	-	-	-	53	-	-	53
Balance as at 30 June 2011	1,171	7,813	(932)	53	416	(3,777)	4,744
Profit for the period	-	-	-	-	-	882	882
Other comprehensive income/(expense)	-	-	-	-	57	(304)	(247)
Share based payment	-	-	-	35	-	-	35
Balance as at 31 December 2011	1,171	7,813	(932)	88	473	(3,199)	5,414
Transactions with owners in their capacity as owners:-							
Share issue	6	80	-	-	-	-	86
	6	80	-	-	-	-	86
Loss for the period	-	-	-	-	-	(16)	(16)
Other comprehensive expense	-	-	-	-	(113)	(1,353)	(1,466)
Share based payment	-	-	-	54	-	-	54
Balance as at 30 June 2012	1,177	7,893	(932)	142	360	(4,568)	4,072

NOTES TO THE FINANCIAL INFORMATION
For the six months ended 30 June 2012

GENERAL INFORMATION
The principal activity of Instem plc and subsidiaries is the provision of world class information solutions for life sciences research and development.

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 2012. The Group's accounting reference date is 31 December.

The company is a public limited liability company incorporated and domiciled in England & Wales. 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-yearly 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 2011 is also unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2011, 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 2012 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 2012.

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 IFRSs.

Instem plc has 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 and Current Financial Liabilities.

2. Segmental Information

The Directors consider that the Group operates in one business segment, being IT applications to the global healthcare market, and that therefore there are no additional segmental disclosures to be made in this financial information.

3. Earnings per Share

(a) Basic

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited	Year ended 31 December 2011 Audited
(Loss)/Profit after tax (£000)	(16)	124	1,006
Weighted average number of shares ('000s)	11,745	11,714	11,714
Basic earnings per share (p per share)	(0.1)	1.1	8.6

(b) Diluted

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited	Year ended 31 December 2011 Audited
(Loss)/Profit after tax (£000)	(16)	124	1,006
Weighted average number of shares ('000s)	11,745	11,714	11,714
Adjustments for share options ('000s)	-	7	134
Adjusted weighted average number of shares ('000s)	11,745	11,721	11,848
Diluted earnings per share (p per share)	(0.1)	1.1	8.5

4. Non recurring income/(costs)

Non recurring costs of £0.11m represent professional fees and other costs incurred in relation to the identification and assessment of acquisition targets (2011: acquisition of Instem Scientific £0.11m).

These costs have been offset by the release of £0.14m surplus provision for deferred consideration in respect of Instem Scientific.

5. Taxation on ordinary activities

	Six months ended 30 June 2012 Unaudited £000	Six months ended 30 June 2011 Unaudited £000	Year ended 31 December 2011 Audited £000
Current tax:			
Corporation tax	-	83	167
Foreign tax	55	68	162
Total current tax	55	151	329
Deferred tax:			
Total deferred tax	70	19	177
Income tax expense	125	170	506

6. Retirement benefit obligations

The latest full triennial actuarial valuation of the defined benefit scheme, the Instem LSS Pension Scheme, was carried out as at 5 April 2011 and was finalised on 5 July 2012. The Scheme data was used by a qualified independent actuary to determine the valuation for accounts purposes as at 30 June 2012 in accordance with the provisions of IAS19. The 2011 comparative numbers were based on the prior triennial actuarial valuation at 5 April 2008 updated at 30 June 2011 and at 31 December 2011. The value of assets held by the Scheme was calculated by reference to monthly statements from the Scheme asset management company. The liabilities at 30 June 2012 were calculated by the actuary on a basis consistent with the valuations carried out at 30 June 2011 and 31 December 2011.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on bonds are based on gross redemption yields at the reporting date whilst the expected returns on the equity and property investments reflect the long-term real rates of return experienced in the respective markets.

	30 June 2012 %	30 June 2011 %	31 Dec 2011 %
Discount rate	4.6	5.9	5.4
Expected return on plan assets	5.1	6.5	5.3
Inflation	2.9	3.7	3.1
Rate of increase in salaries	N/A	N/A	N/A
Rate of increase in pensions in payment	2.9	3.7	3.1
Rate of increase in pensions in deferment	2.9	3.7	3.1
Life Expectancy assumptions			
Male currently aged 45	24.4	24.3	24.4
Female currently aged 45	26.8	26.7	26.8
Male currently aged 65	22.5	22.4	22.5
Female currently aged 65	24.9	24.8	24.9

6 Retirement benefit obligations (continued)

ANALYSIS OF AMOUNT CHARGED TO OTHER FINANCE COSTS	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Expected returns on pension scheme assets	144	168	334
Interest on pension scheme liabilities	(184)	(196)	(394)
Net finance charge	(40)	(28)	(60)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Actual return less expected return on pension scheme assets	(15)	(40)	(480)
Experience losses arising on scheme liabilities	-	-	-
Changes in assumptions underlying the present value of the scheme liabilities	(1,766)	13	88
Actuarial loss recognised in other comprehensive income	(1,781)	(27)	(392)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Opening defined benefit obligation	6,946	6,956	6,956
Interest cost	184	196	394
Actuarial loss/(gain)	1,766	(13)	(88)
Benefits paid	(59)	(182)	(316)
Closing defined benefit obligation	8,837	6,957	6,946

CHANGES IN THE FAIR VALUE OF PLAN ASSETS	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Opening plan assets	5,330	5,479	5,479
Expected return	144	168	334
Actuarial loss	(15)	(40)	(480)
Contributions by employer	265	251	313
Benefits paid	(59)	(182)	(316)
Closing plan assets	5,665	5,676	5,330

6 Retirement benefit obligations (continued)

	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Present value of funded obligations	(8,837)	(6,957)	(6,946)
Fair value of plan assets	5,665	5,676	5,330
Deficit	(3,172)	(1,281)	(1,616)
Related deferred tax asset	761	346	404
Net pension liability	(2,411)	(935)	(1,212)

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME	Cumulative 30 June 2012 £000	Cumulative 30 June 2011 £000	Cumulative 31 Dec 2011 £000
Actual return less expected return on pension scheme assets	(66)	(91)	(51)
Experience gains and losses arising on scheme liabilities	(910)	(910)	(910)
Changes in assumptions underlying the present value of the scheme liabilities	(1,176)	603	590
Cumulative actuarial loss recognised in other comprehensive income	(2,152)	(398)	(371)

The Group expects to contribute £0.34m to its defined benefit plans in this financial year (2011: £0.31m).

7. Availability of this Interim Announcement

Copies of this announcement are available on the Company's website, www.instem.com. Copies of the Interim Report will be downloadable from the Company's website and available from the registered office of the Company shortly.

INDEPENDENT REVIEW REPORT TO INSTEM PLC

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2012 which comprises the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "'Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' Responsibilities
The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

Baker Tilly UK Audit LLP
Chartered Accountants
3 Hardman Street
Manchester M3 3HF

19 September 2012