29 September 2015

Instem plc

("Instem" or the "Group")

Half Yearly Report

Instem plc (AIM: INS.L), a leading provider of IT solutions to the global early development healthcare market, announces its unaudited interim results for the six months ended 30 June 2015.

Financial Highlights

- Revenues increased 31% to £7.5m (H1 2014: £5.7m)
    - Recurring revenues increased 19% to £5.0m representing 67% of total revenues (H1 2014: £4.2m representing 74% of total revenues)
- EBITDA increased to £0.9m (H1 2014: £0.1m)
- Adjusted* earnings per share of 5.14p (H1 2014: 1.20p loss)
- Basic earnings per share of 1.63p (H1 2014: 4.74p loss)
- Seasonal net operating cash outflow of £1.0m (H1 2014: £1.6m)
- Net cash balance as at 30 June 2015 of £0.1m (H1 2014: (£0.2m))

**After adjusting for the effect of foreign currency exchange on the revaluation of inter-Group balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions.*

Operational Highlights

- Demand intensified in both the pre-clinical and clinical sectors
- Strong ALPHADAS order intake and market share gains
- SEND products and services poised for significant growth post definitive guidance from the FDA
- Significant strengthening of the market facing team and project delivery capabilities both on and off-shore

Phil Reason, CEO of Instem plc, commented:

"Performance in the first half of 2015, from both a revenue and profit perspective, has continued the strengthening trends seen in the second half of 2014.

"Research and development pipelines in the pharma industry continue to grow, particularly in the earlier phases of development in which Instem specialises.

"With a solid backlog of existing orders, high levels of customer retention and a growing prospect pipeline, trading is expected to be in line with management expectations for the full year 2015 and we have confidence in the opportunities for 2016."

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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 in use 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 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, the United Kingdom, India and China, with additional presence in France and Japan.

To learn more about Instem solutions and its mission, please visit www.instem.com

Chairman's Statement

I am pleased to report on the excellent financial performance achieved by the Group for the six month period to 30th June 2015.

We opened the year with a record order book, as a result of substantial pre-clinical business being secured towards the end of 2014. This strong financial performance resulted partly through successful execution of these contracts from this increased order book. In addition, the growth experienced in the pre-clinical market appears to be flowing through into early phase clinical trials with a consequential positive effect on sales of ALPHADAS, which added four new clients and eleven new clinical sites across Europe, Canada and the USA during the period.

Within the pre-clinical business, all Software-as-a-Service ("SaaS") Provantis® clients hosted from our US data centre have now upgraded to the latest version, enabling rationalisation and enhancement of the infrastructure. Increasing levels of new licensees within the small-to-mid sized contract research organisations ("CROs") industry sector demonstrates that the improving market sentiment is positively impacting all tiers of the industry. Perceptive Instruments, acquired in November 2013, also increased traction as part of the enlarged group, particularly with our clients in China and North America.

The Group has continued to invest for growth with the appointment of new senior hires within the SEND business, expansion of our Pune, India facility and recent establishment of an office in Tokyo, Japan to support our distributors and customers across the region.

The growth within the pharmaceutical industry, in terms of the number of enterprises working in the sector, the number of active substances undergoing research and the number of successful new product launches, provides one of the most positive market backdrops experienced by the Group in recent times. Consequently, the Group anticipates further growth in both its core pre-clinical and clinical markets across the second half of the year.

Finally, I would like to take this opportunity to thank all our staff, customers and partners for their ongoing support.

David Gare
Non-Executive Chairman
29 September 2015

Operational Review

Following our strong performance in the pre-clinical area at the end of 2014, we entered 2015 with a record order book and this has contributed to the financial progress of the Group in the period. The period has also seen a broadening of demand with the growth in pre-clinical being complemented by growth in the clinical business during the first half of 2015.

We have continued to invest to expand the scale and services provided from our Pune operation, which will be moving into larger premises during October 2015. Post the period end, Instem Japan was established and two experienced Japanese business development professionals have joined the Instem team. This will support a well-established Japanese client base and the increasing requirements for our regional distributors to convert a promising pipeline of opportunities.

Pre-clinical – Provantis® and Perceptive Instruments

Provantis client implementation projects progressed well during the period with all US-based SaaS clients now upgraded to the latest version of Provantis, enabling us to further optimise our data centre infrastructure.

The industry has continued to increase pre-clinical study volumes, which has generated additional Provantis licence sales at several of Instem's mid-sized CRO clients. There has also been a steady stream of customer upgrades and additional module purchases.

Perceptive Instruments has benefitted from being part of the enlarged Instem group with increasing cross selling during the period of its higher value AMES Study Manager and Cyto Study Manager products into existing Instem clients in China and North America.

Early Stage Clinical – ALPHADAS™

2015 has been a very successful period for ALPHADAS in early phase clinical, with three significant new orders announced on 14 May 2015, involving implementation at nine additional clinics in Europe, Canada and the USA. Subsequently, we have received orders from three additional clients who will implement ALPHADAS at four further clinical sites.

Instem Scientific

As highlighted in the 2014 Annual Report, we are currently piloting a new service-based solution, 'KnowledgeScan', designed to leverage our powerful big data technology suite to answer important questions that arise during a typical drug development programme. Building on the expertise, scientific content, ontologies and vocabularies delivered on multiple prior projects, we believe this service fits well with the ongoing restructuring across the pharmaceutical industry, which has led to a significant increase in R&D outsourcing. We expect to see benefits from this industry-led change in the coming years, as demand for consulting expertise is usually a lead indicator of increasing demand for other products and services across this market segment.

Electronic Regulatory Submissions (SEND) – submit™

The new business pipeline for both our software solutions and SEND data set conversion services continues to grow strongly month on month. While some of this will convert to orders and revenue in 2015, the more significant acceleration of revenue continues to be expected during 2016 and 2017, when submissions under the standard become mandatory. Management estimates that by 2019 the industry will be spending between $200m and $270m per year on software and services to generate SEND data, with much of the service work likely to be undertaken by CROs. Meanwhile, the Instem team has been extremely busy implementing the projects secured in 2014 and supporting the significant ramp up in interest generated by the publication of definitive guidance for SEND in December 2014.

We believe that submit™ offers the most advanced product to meet the requirements of SEND and Instem continues to secure the overwhelming majority of business placed in this area. As a consequence we have further strengthened the submit™ development, sales and implementation teams. In particular, we have hired two additional, highly experienced market facing consultants who have been key members on the SEND committee for over 10 years.

Market Overview

As highlighted in our 2014 Annual Report, Citeline®, which provides the world's most comprehensive source of real-time R&D intelligence for the pharmaceutical industry, reported that the size of the global drug pipeline had increased by 8.8% in 2014, alongside a 27% increase in market launches of new active substances. Supported by high capital inflows, the biggest growth segment was seen in the drug development activities of small to mid-tier pharma, with a year-on-year increase of more than 10% in the number of companies with an active drug development portfolio.

The growth in 2014 represented the largest annual rise in the drug pipeline on record, in absolute terms and followed on from the strong advance seen in 2013. There is further evidence that the global pharmaceutical market is now moving resources from late stage clinical development into early compound development work in order to refill the pipeline of preclinical candidates.

These drug development activities require specialist services and technologies, in particular, IT solutions, which enable organisations to improve cost efficiencies and ensure that they are able to meet the ever increasing regulatory demands of the industry. The regulatory bodies' preference for the electronic capture, storage and transfer of data for new drug submissions continues to grow. Pharmaceutical organisations are seeking tools that can help them to identify suitable drug candidates from vast volumes of historic data, in addition to managing their compliance risk with the authorities.

Pre-clinical market

In August 2015, Charles River Laboratories (CRL), a $1.3bn revenue company, which is also the world's largest preclinical CRO, reported that "Demand for outsourced early-stage service continues to intensify" with revenue for their drug safety assessment business enjoying a 3rd successive quarter of low double digit revenue growth. This trend is in evidence amongst many of Instem's other CRO clients and supports the continued robustness of Instem's sales pipeline.

CRL is also the world's largest supplier of laboratory research models and it is witnessing increasing customer demand, particularly in China and North America, with demand stable in Europe. This trend reflects what Instem is experiencing with regard to market expenditure on IT solutions across these territories.

Early Stage Clinical market

The recent market study from Citeline® reported a 4.9% increase in the early stage clinical pipeline, and this supports anecdotal evidence that the early stage clinical market is growing more slowly than pre-clinical, with some CROs reporting marked increases in study volume and others still with capacity to spare.

The early stage clinical market is immediately downstream of pre-clinical and there may therefore be a delay before the increased pre-clinical investment delivers an improved flow of drug candidates to the clinic. The restructuring of the early phase clinical CRO market, as experienced in recent years, is expected to continue with CRO performance quite variable.

Nevertheless, strong opportunities exist within the early stage clinical market for the deployment of Instem's software solutions. These opportunities are resulting from an increasing recognition of the need to control data quality and integrity and because levels of automation within the early stage environment remain low in comparison with other areas of pharma R&D.

Government and Academic Research

Funding for Government and academic institutions undertaking later stages of life sciences research in North America, China and Europe continues to grow to cover gaps that are not sufficiently attractive to commercial enterprises. This enables them to invest in both study automation solutions and in innovative approaches to the process of R&D using novel, scientific informatics and big data approaches.

Instem revenue in this sector of the market has grown, over the last 5 years, from a negligible proportion to approaching 10% of total revenue. It remains one of the target areas for further growth.

Financial Review

Instem's revenue model consists of a blend of fees for perpetual licences and annual support, SaaS subscriptions and professional services. In the period, approximately 67% (H1 2014: 74%) of revenues were recurring in nature, being derived from annual support fees, SaaS subscriptions, funded software development and upgrade services.

Earnings from operations before depreciation, amortisation, non-recurring costs, interest and tax ('EBITDA') for the period, was £0.9m (H1 2014: £0.1m). Operating expenses increased by £0.9m in the half year over the equivalent period in 2014, largely due to the ongoing investment in staff. Amortisation remained at £0.5m compared with the equivalent period in 2014.

Development expenditure in the period was £0.9m (H1 2014: £0.5m), of which £0.2m was capitalised (H1 2014: £0.1m).

The funding deficit of Instem's defined benefit pension scheme remained at £4.0m during the period, calculated in accordance with the provisions of IAS19.

Instem's cash flow displays some seasonality, with cash inflow being weighted towards the second half of the year, resulting from the level of annual fee renewals occurring at the year end. As a result of the normal working capital cycle, net cash at the end of June 2015 was £0.1m (H1 2014: £(0.2)m) compared with £1.7m at December 2014. Cash payments of £0.6m were also made in the period for contingent consideration relating to the acquisition of Perceptive Instruments and the settlement of a loan note, which was issued as part payment of contingent consideration relating to the acquisition of Logos (Instem Clinical).

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 2014 Annual Report.

Outlook

Performance in the first half of 2015, from both a revenue and profit perspective, has continued from the strengthening trends seen in the second half of 2014.

Research and Development pipelines in the pharma industry continue to grow, particularly in the earlier phases of development in which Instem specialises.

With a solid backlog of existing orders, high levels of customer retention and a growing prospect pipeline, trading is expected to be in line with management expectations for the full year 2015 and we have confidence in the opportunities for 2016.

Phil Reason
Chief Executive
29 September 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2015

	Note	Unaudited Six months ended 30 June 2015 £000	Unaudited Six months ended 30 June 2014 £000	Audited Year ended 31 December 2014 £000
REVENUE		7,479	5,701	13,429
Operating expenses		(6,500)	(5,563)	(11,513)
Share based payment		(85)	(41)	(108)
EARNINGS BEFORE DEPRECIATION, AMORTISATION, NON RECURRING ITEMS, INTEREST AND TAX ("EBITDA")		894	97	1,808
Depreciation		(98)	(90)	(186)
Amortisation of internally generated intangibles		(194)	(144)	(297)
Amortisation of acquired intangibles		(320)	(320)	(640)
Total amortisation		(514)	(464)	(937)
PROFIT/(LOSS) BEFORE NON RECURRING ITEMS		282	(457)	685
Non-recurring costs	4	-	(38)	(123)
PROFIT/(LOSS) FROM OPERATIONS		282	(495)	562
Finance income		108	1	9
Finance costs		(116)	(178)	(359)
PROFIT/(LOSS) BEFORE TAXATION		274	(672)	212
Income tax	5	(75)	105	(62)
PROFIT/(LOSS) FOR THE PERIOD/YEAR		199	(567)	150
OTHER COMPREHENSIVE EXPENSE				
Actuarial loss on retirement benefit obligations		(339)	(240)	(621)
Deferred tax on actuarial loss		68	48	124
Exchange differences on translating foreign operations		(28)	1	34
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD/YEAR		(299)	(191)	(463)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD/YEAR		(100)	(758)	(313)
PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT GROUP		199	(567)	150
TOTAL COMPREHENSIVE EXPENSE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT GROUP		(100)	(758)	(313)
Earnings per Share from continuing operations				
- Basic	3	1.63p	(4.74)p	1.24p
- Diluted	3	1.61p	(4.74)p	1.23p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	Unaudited 30 June 2015 £000	Unaudited 30 June 2014 £000	Audited 31 December 2014 £000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11,953	12,734	12,439
Property, plant and equipment	392	292	263
Deferred tax assets	543	395	574
TOTAL NON-CURRENT ASSETS	12,888	13,421	13,276
CURRENT ASSETS			
Inventories	798	397	506
Trade and other receivables	5,595	2,508	4,432
Current tax assets	-	385	-
Cash and cash equivalents	1,600	1,127	1,676
TOTAL CURRENT ASSETS	7,993	4,417	6,614
TOTAL ASSETS	20,881	17,838	19,890
LIABILITIES			
CURRENT LIABILITIES			
Bank overdraft	1,540	1,318	-
Trade and other payables	7,826	5,846	8,175
Current tax liabilities	406	-	231
Short term borrowing	18	-	-
Financial liabilities	1,300	1,100	1,903
TOTAL CURRENT LIABILITIES	11,090	8,264	10,309
NON-CURRENT LIABILITIES			
Long term borrowing	136	-	-
Financial liabilities	299	1,557	281
Retirement benefit obligations	3,952	3,510	3,881
TOTAL NON-CURRENT LIABILITIES	4,387	5,067	4,162
TOTAL LIABILITIES	15,477	13,331	14,471
EQUITY			
Share capital	1,221	1,200	1,221
Share premium	7,892	7,892	7,892
Merger reserve	(326)	(706)	(326)
Shares to be issued	463	311	378
Translation reserve	200	195	228
Retained earnings	(4,046)	(4,385)	(3,974)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	5,404	4,507	5,419
TOTAL EQUITY AND LIABILITIES	20,881	17,838	19,890

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Unaudited Six months ended 30 June 2015 £000	Unaudited Six months ended 30 June 2014 £000	Audited Year ended 31 December 2014 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	274	(672)	212
Adjustments for:			
Depreciation	98	90	127
Amortisation of intangibles	514	464	937
Share based payments and shares to be issued	85	41	108
Retirement benefit obligations	(337)	(310)	(398)
Net foreign exchange loss	-	(65)	-
Finance income	(108)	(1)	(9)
Finance costs	116	178	359
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL	642	(275)	1,336
Changes in working capital:			
Increase in inventories	(297)	(99)	(196)
(Increase)/decrease in trade and other receivables	(1,238)	215	(1,436)
(Decrease)/increase in trade and other payables	(267)	(1,132)	743
CASH (USED IN)/GENERATED FROM OPERATIONS	(1,160)	(1,291)	447
Finance costs	(34)	(17)	(65)
Income tax received/(paid)	199	(246)	100
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(995)	(1,554)	482
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income received	-	1	9
Purchase of intangible assets	(28)	(311)	(369)
Purchase of property, plant and equipment	(72)	(119)	(124)
Acquisition – Cash consideration	(598)	(200)	(302)
NET CASH USED IN INVESTING ACTIVITIES	(698)	(629)	(786)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	-	-	-
NET CASH GENERATED FROM FINANCING ACTIVITIES	-	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,693)	(2,183)	(304)
Cash and cash equivalents at start of year	1,676	2,053	2,053
Effect of exchange rate changes on the balance of cash held in foreign currencies	77	(61)	(73)
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	60	(191)	1,676

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2015

	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 2014	1,176	7,892	(932)	270	194	(3,627)	4,973
Loss for the period	-	-	-	-	-	(567)	(567)
Other comprehensive income/(expense)	-	-	-	-	1	(191)	(190)
Total comprehensive income	-	-	-	-	1	(758)	(757)
Shares issued	24	-	226	-	-	-	250
Share based payment	-	-	-	41	-	-	41
Balance as at 30 June 2014	1,200	7,892	(706)	311	195	(4,385)	4,507
Profit for the period	-	-	-	-	-	717	717
Other comprehensive income/(expense)	-	-	-	-	33	(306)	(273)
Total comprehensive income	-	-	-	-	33	411	444
Shares issued	21	-	380	-	-	-	401
Share based payment	-	-	-	67	-	-	67
Balance as at 31 December 2014	1,221	7,892	(326)	378	228	(3,974)	5,419
Profit for the period	-	-	-	-	-	199	199
Other comprehensive expense	-	-	-	-	(28)	(271)	(299)
Total comprehensive income	-	-	-	-	(28)	(72)	(100)
Share based payment	-	-	-	85	-	-	85
Balance as at 30 June 2015	1,221	7,892	(326)	463	200	(4,046)	5,404

NOTES TO THE FINANCIAL INFORMATION
For the six months ended 30 June 2015

GENERAL INFORMATION
The principal activity of Instem plc and its subsidiaries is the provision of world class IT systems and services for the global life sciences community.

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 2015. The Group's accounting reference date is 31 December.

The Group is a public limited liability Group 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 2014 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2014, 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.

The Consolidated Statement of Comprehensive Income has been amended from prior periods to show a sub-totalled amount for Earnings before Depreciation, Amortisation, Non-recurring items, Interest and Tax ('EBITDA'). Prior period comparable figures have been restated accordingly. The Directors have made this adjustment to better reflect the underlying trading performance of the business and show a commonly used measure for comparability with other businesses and sectors.

Significant accounting policies
The accounting policies used in the preparation of the financial information for the six months ended 30 June 2015 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 2015.

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 and Current Financial Liabilities.

2. Segmental Information

The Directors consider that the Group operates in one business segment, being IT solutions to the global early development healthcare market, and that therefore there are no additional segmental disclosures to be made in these financial statements.

3. Earnings per Share

(a) Basic

	Six months ended 30 June 2015 Unaudited	Six months ended 30 June 2014 Unaudited	Year ended 31 December 2014 Audited
Profit/(Loss) after tax (£000)	199	(567)	150
Weighted average number of shares (000's)	12,212	11,954	12,063
Basic earnings/(loss) per share (p per share)	1.63	(4.74)	1.24

(b) Diluted

	Six months ended 30 June 2015 Unaudited	Six months ended 30 June 2014 Unaudited	Year ended 31 December 2014 Audited
Profit/(Loss) after tax (£000)	199	(567)	150
Weighted average number of shares (000's)	12,212	11,954	12,063
Adjustments for share options (000's)	177	-	155
Adjusted weighted average number of shares (000's)	12,389	11,954	12,218
Diluted earnings/(loss) per share (p per share)	1.61	(4.74)	1.23

The loss and the weighted average number of ordinary shares for the 6 months ended 30 June 2014 used for calculating the diluted loss per share are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of International Accounting Standard ("IAS") No 33.

(c) Adjusted

	Six months ended 30 June 2015 Unaudited	Six months ended 30 June 2014 Unaudited	Year ended 31 December 2014 Audited
Profit/(Loss) after tax (£000)	199	(567)	150
Add back:			
Non-recurring items (£000)	-	38	123
Amortisation of intangibles on acquisitions (£000)	320	320	640
Currency exchange differences (£000)	109	65	96
Adjusted Profit/(Loss) after tax (£000)**	628	(144)	1,009
Weighted average number of shares (000's)	12,212	11,954	12,063
Adjusted earnings/(loss) per share (p per share)	5.14	(1.20)	8.36

4. Non recurring costs

Non recurring costs of £nil in the period (H1 2014: £0.04m implementation costs relating to the acquisition of Perceptive Instruments Limited).

5. Taxation on ordinary activities

	Six months ended 30 June 2015 Unaudited £000	Six months ended 30 June 2014 Unaudited £000	Year ended 31 December 2014 Audited £000
Current tax:			
Corporation tax	-	(148)	-
Foreign tax	221	50	340
R&D tax credit	(245)	-	(92)
Total current tax	(24)	(98)	248
Deferred tax:			
Total deferred tax	99	(7)	(186)
Income tax expense/(credit)	75	(105)	62

6. Availability of this Interim Announcement

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

INDEPENDENT REVIEW REPORT TO INSTEM PLC

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2015 which comprises Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the related explanatory notes that have been reviewed. 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 Group 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 Group 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 Group, 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 Group 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 2015 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.

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29 September 2015