



ANNUAL REPORT 2022



700

Instem has over 700 customers with its blue chip customer base consisting of the leading pharmaceutical, chemical and contract research organisations as well as academic, government and privately funded research institutions across many sites worldwide. These include all of the top 25 pharmaceutical and biotech companies such as GlaxoSmithKline and AstraZeneca.

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*We estimate that approximately half
of the world's preclinical drug safety
data has been collected over the last
20 years using Instem software.*



Powerful Solutions • Unique Perspective • Global Coverage

Instem is a leading provider of IT solutions & services to the life sciences market delivering compelling solutions for Study Management and Data Collection; Regulatory Solutions for Submissions and Compliance; and Informatics-based Insight Generation.

Instem solutions are in use by over 700 customers worldwide, including all the largest 25 pharmaceutical companies, enabling clients to bring life enhancing products to market faster. Instem's portfolio of software solutions and services 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 products and services now address aspects of the entire drug development value chain, from discovery through to market launch. Management estimate that over 50% of all drugs on the market have been through some part of Instem's platform at some stage of their development. To learn more about Instem solutions and its mission, please visit www.instem.com.

HIGHLIGHTS

"The post period-end launch of the Centrus product suite further enhances our In Silico portfolio. This is an integral part of our long-term growth strategy and a significant area of planned investment for us over the next 12 months or so, reflecting broader market trends and growing demand for data insight leveraging computational and artificial intelligence based solutions."

FINANCIAL HIGHLIGHTS

- Total Group revenues increased 28% to £58.9m (2021: £46.0m)
 - Software as a Service ("SaaS") revenues increased by 41% to £13.7m (2021: £9.7m)
 - Recurring software revenues (annual support and SaaS) increased 43% to £34.5m (2021: £24.1m), 59% of total revenue (2021: 52%)
 - Constant currency revenue growth was 20%
- Adjusted EBITDA* increased 32% to £10.9m (2021: £8.3m), representing an adjusted EBITDA margin of 18.4% (2021: 17.9%)
- Reported profit before tax of £5.5m (2021: £3.0m)
- Adjusted profit before tax** of £8.2m (2021: £5.9m, as restated)
- Fully diluted earnings per share of 19.8p (2021: 7.4p)
- Adjusted fully diluted earnings per share** of 31.3p (2021: 20.4p, as restated)
- Net cash generated from operations of £9.9m (2021: £10.3m)
- Cash balance as at 31 December 2022 of £14.0m (2021: £15.0m) – after making deferred and contingent payments of £5.4m in 2022 in relation to the acquisitions made during 2021

For an explanation of the alternative performance measures in the report, please refer to page 23.

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

**After adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items, impairment of goodwill plus amortisation of intangibles on acquisitions.

OPERATIONAL HIGHLIGHTS

- First full-year contributions from the three acquisitions completed during 2021, all successfully integrated and earn-outs targets met in full: The Edge Software Consultancy Ltd ("The Edge"), d-Wise Technologies Inc ("d-Wise"), and PDS Pathology Data Systems Ltd ("PDS") (the "Acquisitions")
- Won largest ever contract with long-term client
 - \$12m five-year agreement with global CRO, lead client for new Aspire software solution
 - Significant future SaaS revenue potential
- Contract extension with leading contract research organisation ("CRO") worth c.\$1.4m
 - For over 900 additional users of the Group's Provantis non-clinical study management platform– reflects strong underlying industry R&D activity
- Sales price increases successfully fed through to customers to mitigate inflationary cost pressures
- New banking facility finalised with HSBC of up to £20m, £10m of which is committed

POST PERIOD-END HIGHLIGHTS

- ToxHub assets acquired and licensed from the eTRANSAFE consortium and launch as part of new solution suite Centrus®, enhancing *In Silico* revenue streams and reach. Significant planned investment and future growth potential - announced 15 May 2023.
- Large contract renewal/expansion for the US National Toxicology Program, including incremental long-term SaaS income and *In silico* technology - announced 11 May 2023.
- Diversified the Board with the appointment of Mary Dolson as an independent non-executive director and strengthened the Executive team, with the appointment of Eve Leconte, Chief People & Culture Officer and Mark Poggi, Executive Vice President Global Sales.

This was another strong period for the Company with continued growth in routes to market and higher future visibility SaaS revenues. The enlarged Group added a number of contracts from existing and new clients, benefiting from the Acquisitions made during 2021, while the core product suite and strong market backdrop continued to underpin organic growth.

New contracts won during the Period provide further validation of our market position while our software suite also provides a firm foundation from which the Group can continue to evolve. The long-term nature of our contracts, combined with our growing range of solutions, underpin the Board's continued confidence in our ability to deliver future success.

Notwithstanding wider concerns around the funding environment for drug discovery and development, we have seen no evidence of slowdown to date and our focus remains strong, and our focus remains on further broadening our portfolio of products and solutions that are attractive across the spectrum. This will continue to drive value while demonstrating the strength of our proposition.

Looking forward, we have a strong order book, and the Company is well placed to benefit from industry consolidation as well as continued loyalty from existing clients. We have rationalised the non-core elements of our portfolio and positioned ourselves to benefit from increased cross selling, to win and service customer contracts of all sizes and we look forward to building on the strong start to trading during the current year. The post period-end launch of the Centrus product suite further enhances our *In Silico* portfolio. This is an integral part of our long-term growth strategy and a significant area of planned investment for us over the next 12 months or so, reflecting broader market trends and growing demand for data insight leveraging computational and artificial intelligence based solutions. We will continue to focus on organic and, where appropriate, acquisitive growth opportunities as we build out high-margin revenue lines while delivering on our commitment to help our clients bring their life enhancing products to market faster.

P J Reason
Chief Executive

CHAIRMAN'S STATEMENT

This was a highly successful and strategically very important year for the business, with concentration on two main activities: to fully complete the integration of the three companies acquired in 2021; then to ensure that the resultant consolidated business was ideally positioned to commence the next phase of its development in 2023 and beyond.

Being the first full year to benefit from the Acquisitions, as expected, the results were positively impacted by the greater solution suite and routes to market now in place. This transformation of the business has not only increased the scalability and reach of our operations but has improved the Group's ability to win larger contracts and attract opportunities that were not previously available.

Strategically, we aim to ensure that our solutions enable a shortening of the time taken for drugs to come to market and that we have an increasing number of touchpoints across the drug discovery and development lifecycle.

FINANCIAL PERFORMANCE

All parts of the business benefited from the extension of our product range, which is becoming increasingly relevant to a wider cross section of customers. Furthermore, our ability to provide a growing number of solutions has enabled us to increase cross-selling as well as to add new customers that were previously outside of our reach.

During the Period we were able to pass on essential price increases to customers, which helped to mitigate the global inflationary pressures now being experienced by all businesses. Importantly, we also benefited from a further change in our revenue mix, with additional, higher margin and visibility SaaS revenue streams from existing and new clients.

The performance during the Period was aligned with management expectations post the completion of the Acquisitions with notable progress on a number of key metrics. In particular, increasing levels of SaaS-driven business and strong client retention rates continue to be cornerstone objectives.

- SaaS-based revenues grew 41% to £13.7m
- Total recurring revenues grew 43% to £34.5m
- Recurring revenue retention rate >98%
- Total Group revenues increased 28% to £58.9m
- Adjusted EBITDA grew 32% to £10.9m
- Net cash generated from operations of £9.9m

LOOKING FORWARD

Following a strategic review of our operations and opportunities the next phase of the development of the business will be based on the achievement and maintenance of a growing portfolio of 'world leading life science workflow and data solutions.' These are grouped into three market focussed sectors.

STUDY MANAGEMENT

This sector has historically been the bedrock of the overall business. The products and services of the PDS acquisition have now been merged with the equivalent pre-existing Instem products and services. Consequently, we are now the clear market leader in the pre-clinical study management market. In addition, we have now broadened our study management scope into the discovery phase of pharma R&D through the acquisition of The Edge.

CLINICAL TRIAL ACCELERATION

Solutions for clinical trial acceleration now provide an important opportunity for the Company. This was the principle market focus of the d-Wise business. We believe that, this, combined with the resources and market reach of Instem, will significantly leverage the potential in this area.

We have already seen these benefits, with the Company, in September 2022, winning its largest contract to date – worth \$12m over five years.

IN SILICO/DATA SCIENCE

Artificial Intelligence ("AI") is now one of the most exciting supporting technology areas in Pharma R&D, with its potential to generate significant improvements both in cost and timescale for new product development.

We separately announced today, 15 May 2023, that Instem is taking on responsibility for the management and further enhancement of the 'ToxHub' database and software platform. ToxHub was created by e-TRANSAFE (a consortium of global pharma companies, universities and technology companies, supported by EU grant funding) and has benefited from c.€41m investment to date.

ToxHub has become a component of recently launched solution suite Centrus. Maximising the potential for this new solution suite is strategically important and now a major focus of investment for the Company. Initially Centrus will provide an exciting axis for further growth of our existing *In Silico* solutions. However, it also sets the stall for the next stage of the Company's development, which will include an increased focus on *In Silico* solutions.

BOARD CHANGES

Post-period end, we were delighted to welcome Mary Dolson as an Independent Non-Executive Director to the Board and Chair of the Audit Committee. Mary also joined as a member of the Remuneration and Nomination Committees. Mary is an expert advisor on regulatory, financial and accounting compliance issues, with extensive experience advising businesses in the pharmaceutical, biotech and life science sectors. She is an experienced specialist in taking companies through periods of change, from start-up to venture capital investments to public offerings. Upon Mary's appointment, membership of the Company's audit, remuneration and nominations committees was revised accordingly and the Company will continue to review membership of the various committees periodically in line with good governance practice.

Following Mary's appointment David Sherwin, Non-Executive Director, stepped down from the Board effective 31 January 2023. We would like to thank David for his support and guidance during nearly 50 years at Instem.

IN SUMMARY

Increasing levels of SaaS-driven business and strong client retention rates continue to be the cornerstone of our model. We will continue to build on the fact that our solutions remain critical in shortening the time taken for drugs to come to market, resulting in significant revenue growth for our blue-chip client base as they provide life changing new products for consumers world-wide.

We remain focused on organic revenue growth, margin improvement and accretive M&A and believe that the Company is extremely well placed to deliver further success. The performance during the Period is a strong reflection of the hard work across all parts of the business and the foundations we now have in place are expected to underpin material upside opportunities.

D Gare

Non-Executive Chairman

STRATEGIC DEVELOPMENT

In 2022 we stated our clear intention to make material progress in integrating the data from our broad portfolio of market leading applications to deliver compelling new capabilities to the market and are delighted that post-period end we completed the transfer of eTRANSAFE's ToxHub application to Instem, announced 15 May 2023.

We are very excited about the potential of our expanded *In Silico* and Translation Science ("ISTS") business unit, with our new Centrus™ solution suite incorporating:

- the acquired ToxHub technology
- our previous *In Silico* solutions
- the Clinical Trial Transparency solutions (previously within our Clinical Trial Acceleration business unit)
- the emerging opportunities to leverage the SEND information assets that are rapidly growing within pharmaceutical companies and contract research organisations around the world.

The Group's focus remains on helping clients to radically reduce the cost and time of life sciences research and development, with *In Silico* alternatives to traditional client experimental processes representing a significant opportunity. Instem offers a range of solutions including predictive data analytics, simulation and modelling that provide clients with services from early drug discovery to late-stage clinical trials and, while already leveraging machine learning and AI technologies, there is much more we can do in these areas.

With our increased focus on ISTS and a clear objective to optimize our clients R&D activities, we decided to dispose of our Regulatory Information Management "RIM" software business and this transaction completed post period end. Most of our RIM revenue since the acquisition of Samarind in 2016 has been in support of our clients' post-marketing activities, as they launched their regulated products around the world. The opportunity that we envisaged to build on our strength in the medical devices niche was constrained by slower introduction of helpful regulatory changes and a medical devices market that was one of few that Instem targets that was negatively impacted by the Covid pandemic. We believe that Ennov, a competitor in the RIM market and acquirer of our RIM business, will be a good home for a small team of dedicated former Instem staff and our RIM clients. RIM represented less than 2% of total revenue in 2022.

RIM was part of our Regulatory Solutions business unit, alongside our much larger SEND related business. Having moved the responsibility for solutions that leverage large volumes of SEND studies for insight generation to ISTS, we have moved our SEND creation software and services into our Study Management business unit. The clients in these areas and the workflow technology applications overlap significantly; together they provide greater opportunity to optimize efficiency and effectiveness for Instem and our clients.

As 2022 was the first year that incorporated full contributions from the Acquisitions made during 2021, the results reflect the benefits of scale. With an enhanced solution suite servicing a growing number of touchpoints across the drug discovery and development lifecycle the Company won multiple new contracts and clients, which further enhanced SaaS revenue streams in particular.

Organic growth remained strong, with retention of recurring SaaS and Annual Support revenue once again ahead of the Company's 98% key performance indicator and new business win rates confirming market leadership across its broad portfolio.

The Company has created a strong market position and substantial recurring revenues through helping our clients orchestrate and automate their study workflows. We are building on this firm foundation with an increasing focus on the higher growth areas in our portfolio, particularly the ISTS solutions that contribute across the entire R&D value chain from drug discovery to late-stage clinical trials and beyond. The industry recognises and is investing in advanced information technologies, such as AI and other data-centric solutions, to both lower the cost and accelerate its drug development activities. Our ISTS technology, plus our deep understanding of the high volumes of complex data, collected through our workflow solutions over several decades in this industry, leave us well-positioned to drive forward both current and innovative new solutions.

MARKET REVIEW

The market backdrop continues to be favourable for the Group, with global population growth and life expectancy underpinning increased demand for successful innovation in life sciences. Increasing amounts of money are being invested in the biotech industry with the pharmaceuticals sector investing heavily in drug development, underpinning a strong pipeline for Instem.

In the pharmaceutical industry, which represents the largest proportion of Instem's revenue, we refer again to the Pharma R&D Annual Review, the 2023 version of which was released by Pharma Intelligence in April 2023. This report shows that the industry grew strongly in the last 12 months with a 5.9% increase (2021: 8.2%) in the total number of drugs in the regulatory stages of global R&D, continuing a multi-year growth trend that shows no sign of abating.

BUSINESS PERFORMANCE

STUDY MANAGEMENT

Performance here remained strong with revenue growth of 27%, compared with prior period growth of 35%, with both of these years benefiting from the Acquisitions in 2021 and reflecting the continuing growth in non-clinical research and development, with the number of drugs in this stage of development up 4.9% (2021: 11%). In December 2022 the Company announced that it had entered into a contract extension worth c.\$1.4m for over 900 additional users of the Provantis non-clinical study management platform with an existing leading publicly traded global CRO, highlighting the continued strength of its offering, client relationships and underlying market.

The continual functional and technological evolution of the study management portfolio, which has been a mainstay of the business for many years, resulted in a number of new business wins. New product versions helped to maintain high levels of client retention and to support the ongoing transition of client deployments from on-premise to Instem's SaaS solution. With CRO consolidation a significant feature over the last few years, it is very encouraging that clients have invariably chosen to consolidate on Instem's Provantis software when companies combining, through merger or acquisition, look to harmonize on a single solution, rather than retain competing study management products. In total, over 3,000 additional Provantis users were licensed in 2022.

IN SILICO AND TRANSLATIONAL SCIENCE

Instem's *In Silico* and Translational Science solutions enable organizations around the world to unlock critical biomedical intelligence contained in both public and proprietary data resources. Insights, generated from information produced across the R&D continuum, are used to support operational efficiencies and scientific advances throughout discovery, development and clinical practice.

In November 2022 the Company announced the release of the latest edition of its Leadscape Model Applier Computational Toxicology software solution,

and significant improvements were also made during 2022 to the KnowledgeScan Target Safety Assessment (TSA) platform. Enhancements to these AI-enabled solutions, used for the assessment of chemical and biological mechanisms, support client demand for the combined benefits of both tools. Clients license the technology on a project or enterprise basis, or access it through Instem's innovative, technology enabled services. Our 'translational science' capability has also been recently enhanced by the addition of products and services in clinical trial transparency, where clients are provided access to anonymised clinical trial data for regulatory submission and secondary use.

A growing demand for reliable alternatives to traditional testing methods and particularly animal-based studies in pharmaceutical development was a key factor in the Company adding the ToxHub suite of products post period end, which has been combined with our existing *In Silico* solutions as part of a new Centrus solution suite. Instem's highly successful, long-term collaborations with the US Food & Drug Administration and our role orchestrating large scale industry initiatives, such as the *In Silico* Protocols project, create an excellent framework for ongoing collaboration with the eTRANSafe Consortium members, who jointly specified and invested in the creation of ToxHub. Centrus is expected to provide a spring board for accelerated ISTS revenue growth.

REGULATORY SOLUTIONS

The Regulatory Solutions business unit comprised our SEND related software and technology enabled outsourced services, together with the Samarind RMS RIM software suite. In the highly competitive and challenging RIM market revenue declined 7% to c.£1.2m. Conversely, our SEND business grew by 24% to £10.8m. Every drug company is required to submit non-clinical data in SEND format to the FDA (Food and Drug Administration), as part of the process for testing and getting approval for each new drug. The combination of increased numbers of drugs in development and SEND being extended to cover a broader range of study types, provided a solid platform for continued growth.

Having acquired PDS in September 2021, a competitor in the SEND software and services market, we were able to reallocate some of our industry experts to further investigate the opportunity to generate insight from our clients' rapidly growing SEND information repositories. Post period end this work has now transitioned to our ISTS business unit and our technology and services for SEND creation have become part of Study Management. As a consequence of these changes, Regulatory Solutions will no longer be reported independently.

CLINICAL TRIAL ACCELERATION SOLUTIONS

Instem plays a key role in the acceleration of analysis and tabulation activities for late-stage clinical trials through its Statistical Computing Environment (SCE) consultancy and solutions. Instem is acknowledged as an authority in the design, implementation and optimisation of SCEs for the biggest clinical trials organisations to the new entrants and innovative biotechs advancing novel drugs. The Company's solutions for late-stage clinical trials are designed to expand as customer needs grow and mature, providing essential scalability to these organisations. At the same time, Instem's SCE operating platforms provide sponsors and CROs an essential transformational bridge to cloud computing and the benefits of automation through AI and a wide array of open source and cloud-native technologies. SCE solutions from Instem open a gateway for organisations to access a new value space in computing technology that can be leveraged to advance data science and accelerate drug development programs.

Significant new business wins included the largest ever contract win for the Company – worth in excess of \$12m over five years. This contract, provides over 2,000 users worldwide at an existing CRO client, access to Instem's new Aspire™ SCE software solution. Aspire is a cloud-based SaaS solution targeting the largest pharma and CROs in the world and is another example of the company's SaaS growth strategy. For this client, Aspire will be deployed on the Amazon Web Services cloud platform. With the focus on Aspire product sales and this key customer launch in Q4 2023, the volume of custom SCE development consulting projects has predictably dropped. Aspire is anticipated to drive value for clients by accelerating SCE deployment timelines, reducing client modernization costs, while increasing recurring revenue and profitability of this business area.

Instem continued to provide productised statistical computing environments for small to mid-sized pharma companies and CROs with a steady growth in new clients and annual recurring revenue.

STRENGTHENED EXECUTIVE MANAGEMENT TEAM

In addition to the various Board changes, we welcomed Mark Poggi to the Executive Team, joining as Executive Vice President Global Sales. Mark previously worked at CAS, a 1,200 employee subsidiary of the American

Chemical Society, where he had an international team of around 85 people, over 3x the number he will initially lead at Instem, and responsibility for approximately ~\$190m in annual sales. Additionally, Eve Leconte has been promoted to join the Executive Team as Chief People & Culture Officer.

Finally, John Alarcon was appointed Vice President of Strategic Partnerships and Vice President of US Finance. John joined Instem on a contract basis in 2019 and led the buy-side due diligence, modelling, and integration efforts on the d-Wise acquisition, and supported on those of The Edge and PDS. John was also Interim Controller for Instem's Clinical Trial Acceleration business unit.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Mission and Vision Statement

Instem is a leading provider of IT solutions and services to the life science market with a mission to enable our customers to bring their life enhancing products to market faster.

The Group's mission and values align well with many of its customers to accelerate the discovery, development and delivery of their life enhancing products while complying with the relevant regulations. Instem's suite of *In Silico* Solutions, in particular, helps reduce reliance on animal-based testing, with a strong industry, regulatory and societal desire to only use animals when alternative methods are not sufficient to assess potential risk.

As part of the acquisition integration process, in 2022 the Group introduced a new vision and values for the new One Instem. The Group's vision is the future transformed for the benefit of everyone, with intelligent solutions empowering collaboration and life enhancing science.

The Groups values which were introduced and reinforced during 2022 are:

- We are a community that thrives together
- We are bold, creative and curious
- We are optimistic and love what we do
- We are inspired to deliver value

The Group's vision and values have an important role in strategy development. They help to shape the Group's culture and to inform near and longer-term objectives. The global events over the last three years have highlighted more than ever the need for businesses to

operate in a socially responsible and environmentally sustainable way and to look after their staff by providing a safe operating environment.

As the Group expands, it has formalised its efforts in Environmental, Social and Governance (ESG), and has established an ESG Committee, represented by a diversity of colleagues from across the Group. The Committee has focused on key environmental aspects and, in light of the global pandemic, charitable activities.

The Group has made good progress this year with its initial ESG targets and it is committed to developing a comprehensive ESG strategy over the forthcoming years, which will include key risks and opportunities for the Group.

In 2021, the Group received its first external ESG rating from Gaia Research which placed the Group above the national benchmarks for its sector and turnover category.

The Group received a credible B rating for its ESG evaluation score from Integrum ESG (“Integrum”) in October 2022. The Group’s score was determined by a combination of sustainability and governance scores as shown on the graph below.

ENVIRONMENT

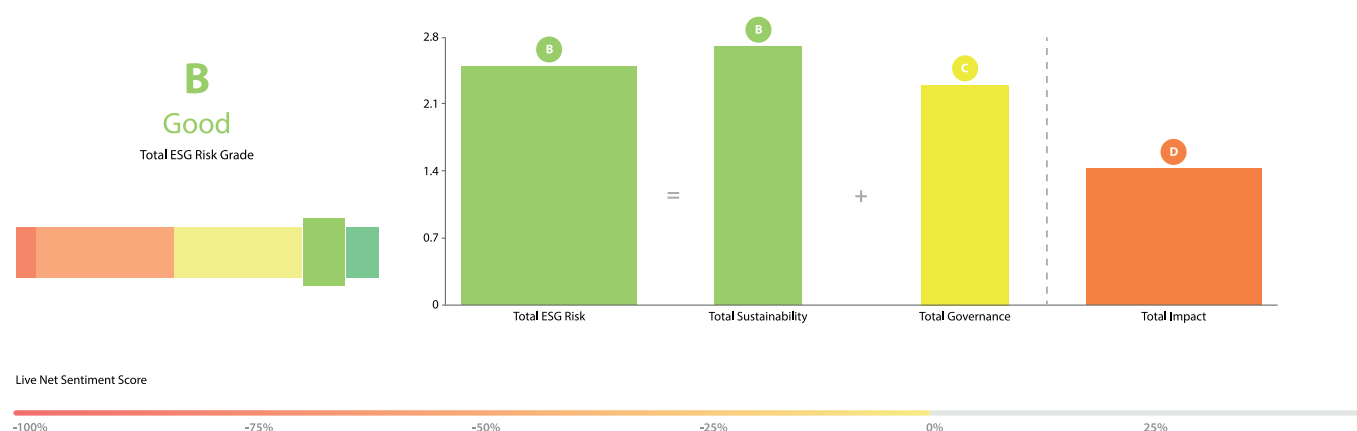
Our Environmental impact

As a software and services solutions business, Instem’s activities do not involve any energy-intensive processes or generate significant waste. Nonetheless, Instem is

committed to reducing its environmental impact and is developing an environmental strategy across the group, with the objective of ensuring that the Group minimises its impact on the environment as part of its business activities. This will also build on what the business has achieved so far, embracing new remote, flexible and collaborative ways of working across a simplified and reduced leased property portfolio, significantly reducing commuting impacts. During 2022, two office leases expired in Guildford and Bury St Edmunds, UK and were not renewed. Further details are contained in Note 9.

Instem cares about the environment and fully supports, and is committed to, the principles of promoting good environmental practice and sustainability in the conduct of its activities. The Group wishes to minimise adverse effects on the environment. Our environmental strategy is implemented through the ESG Committee and regulatory requirements, considering the requirements of Streamlined Energy and Carbon Reporting (SECR) and the Task Force on Climate Related Financial Disclosures (TCFD). We intend to improve the overall environmental performance of the Group, considering both our organisational profile and the local laws and regulations in which Instem offices are located.

The COVID-19 pandemic brought with it a number of operational changes and development of new Group-wide strategies, including many that reduced our environmental impact. These included significantly reduced business travel.



The Group places great emphasis on its sustainability and ESG responsibilities and recognises the importance many of its investors and other stakeholders place on this aspect of our business.

The Group:

- complies with relevant environmental legislation
- reduces waste, where practicable, re-using and recycling consumables
- promotes paperless processes using electronic records
- minimise the consumption of energy and resources in the Group's operations
- where possible, increase the procurement of environmentally friendly products.

Streamlined energy and carbon reporting requirements (SECR) statement

The Group is committed to monitoring and reducing its emissions year-on-year.

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, we report on greenhouse gas ("GHG") emissions as part of the strategic report. The Group is also aware of its reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019, which implement the government's policy on Streamlined Energy and Carbon Reporting (SECR).

As such, this year the Group is required to measure and report on energy and carbon data across its UK business, providing data to assess its overall environmental impact for Scope 1 and 2.

In 2021 the Group reviewed the requirements of the Environmental Reporting guidelines. For each Company in the Group that qualifies as large their total energy consumption was below 40MWh and therefore the Group and Company was not required to prepare an Energy and Carbon Report. In 2022 the Group met the regulatory threshold and was therefore required to report.

Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company report for strengthening its energy and carbon reporting to meet these new requirements and to increase the transparency with which environmental impact is communicated to the Group's stakeholders.

The Group has identified that the key intensity ratio, an expression of the quantity of emissions in relation to a quantifiable factor of business activity, which is in tonnes of CO₂e per the floor area of the occupied office buildings and spaces. The carbon footprint during

2022 was 55 tCO₂e the total floor size was 17 thousand sq ft therefore the intensity ratio was 3.25 tCO₂e per 1000 sqft.

The table below contains the carbon emissions for the reporting period January to December 2022. The results are in compliance with UK SECR legislation covering energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and energy efficiency actions.

Jan 2022 - Dec 2022	
Total electricity use	168,722 kWh
Total gas use	16,088 kWh
Total transport fuel	8,084 kWh
Total energy from other fuels	0 kWh
Total energy use (all sources)	192,895 kWh
Total carbon emissions (electricity)	49 tCO ₂ e
Total carbon emissions (gas)	3 tCO ₂ e
Total carbon emissions (transport fuel)	3 tCO ₂ e
Total carbon emissions (other sources)	0 tCO ₂ e
Total carbon emissions	55 tCO ₂ e
Total estate size	16,997 sqft
Carbon intensity ratio	3.25 kgCO ₂ e per sqft

Scope	Source	Emissions (tCO ₂ e) Jan 2022 - Dec 2022
Scope 1	Total carbon emissions (gas)	3.5
Scope 2	Total carbon emissions (electricity)	49.1
Scope 3	Total carbon emissions (transport fuel)	2.6
Total		55.2

The Group is committed to responsible carbon management and energy efficiency throughout the organisation. The group recognises that climate change is one of the most serious environmental challenges currently threatening the global community and understands the need to reduce greenhouse gas emissions.

To increase businesses energy efficiency the Group encourages the following policies

- Hybrid working for staff
- Reduced business travel
- A reduced property portfolio

Task Force for Climate-related Financial Disclosures (TCFD)

The TCFD was established by the Financial Stability Board to assist companies to assess climate-related financial risks. The TCFD has developed a series of recommendations on the disclosures, which organisations should include in their annual report, covering:

- Governance
- Strategy
- Risk Management
- Metrics and targets

As part of our responsibility to manage our contribution to long-term climate change, we have included the recommendations from the TCFD as part of our new Environmental Strategy. This will assist in informing our stakeholders of our climate-related financial risks and how we manage them.

Currently Instem is not required to report under the TCFD due to its size. However, we have engaged a third-party specialist who will be supporting us and publishing a matrix of results in the 2023 annual report.

IT Equipment Waste Management

We already ensure that, as a Group, we are participating in a programme to recycle or re-purpose the highest amount possible of information technology equipment used internally.

This year the Group received exemption for submitting its annual Waste Electrical and Electronic Equipment (WEEE) return because its equipment is designed only for research and development use and only available via business to business (B2B).

SOCIAL

As a supplier to the healthcare industry, Instem's technological innovations, software and services solutions have a positive impact on society world-wide.

Employment Practices

People are at the heart of every stakeholder connection that Instem builds. Instem's staff are a key component in the success of the business and in respect of this Instem has a dedicated People and Culture team that has implemented policies to support staff during their employment.

As of 31 December 2022, Instem employed more than 500 people globally. The business ensures its actions, working environment and policies prioritise employee wellbeing. This includes reward and recognition schemes, a flexible and considerate working approach and a growing diversity and inclusion programme. Instem believes that making positive changes within

the organisation contributes to a positive ripple effect on society as a whole.

Ethical Practices and Human Rights

Instem places high emphasis on conducting its business with honesty and integrity and this forms part of our core values. The highest ethical standards are expected of management and employees alike and we continuously strive to create a corporate culture of honesty, integrity and trust.

As a vendor of software and associated services, Instem operates in the highly regulated and ethically minded life sciences industry where there is not a prevalence of human rights issues.

Internally, Instem addresses Anti-Corruption, Anti-Bribery and Corporate Criminal Offences through HR policies and handbooks, ensuring staff understand their responsibilities in relation to ethical matters. Ethics and Code of Conduct training is also mandatory training for all staff.

Our Human Resources Policy and Culture handbooks, together with our procurement practices, require Instem and third-party staff to be treated fairly and employed in accordance with all relevant laws and regulations for the locations in which they are based.

Ensuring that equal opportunities exist for all

The Group is fully committed to offering equal employment opportunities to all and its policies are designed to attract, retain and motivate staff, who can demonstrate that they have the necessary skills and capabilities, regardless of protected characteristics, or any other conditions not relevant to the performance of the job. The Group gives proper consideration to applications for employment when these are received from persons with disabilities, taking account of any reasonable adjustments that may be required for candidates with a disability. The Group's policies are consistent with the requirements of the Universal Declaration on Human Rights and the spirit of the International Labour Organisation core labour standards.

Employee's diversity

Instem has a diverse global workforce with staff located across the UK, Europe, North America and Asia. As of 31 December 2022, 67% (2021: 66%) of employees were located outside of the UK.

The Group recognises the importance of gender diversity on its Board and within senior management. In January 2023 the Group was delighted to announce the appointment of Mary Dolson as an independent Non-Executive Director and chair of the Audit Committee and the appointment of Eve Leconte as Chief People and Culture officer to the Executive Team.

As the Group has less than 250 employees for each separate legal entity, it is not a reporting requirement to publish a gender pay gap report. However, the Group's internal processes ensure that salary levels and salary increases are fair and comparable across its staff in all regions.

Engagement with the workforce

Annual staff surveys, incorporating both Gallup Q12 and Great Place to Work® concepts, are undertaken by the People & Culture team to ensure our staff have an opportunity to express views on a wide range of employment and social issues. Regular staff reviews offer additional opportunities for such communications as well as to guide training and skills development. The results of the 2022 staff survey demonstrated that 92% (2021: 90%) of employees regard Instem as a great place to work which is also reflected in the Group's attrition rate which is traditionally below the global average.

During the year the Group expanded its range of employee engagement activities ensuring that the views and opinions of employees are heard and that its corporate values are upheld. Activities included:

- quarterly company performance meetings for all staff and interactive forums to raise questions, topics of interest, provide feedback or listen to others
- acquisition integration forum meetings, which provide the opportunity to ask questions about the integration process
- trading updates and monthly management reports are shared with all staff
- highlighting mental health issues and raising awareness through mental health panel interviews with staff, resilience and stress management webinars and mental wellness workshops sustaining the "Wellbeing Wheel" to support staff mental health.
- introduction of the Instem Leadership Academy to help develop senior employees and improve their leadership skills.

Health and well-being for staff was promoted through employee communication channels and subsidised healthcare provision. The leadership team is encouraged to make discussions on wellbeing a regular feature of staff meetings.

The Group made LinkedIn Learning available to every employee during 2022, providing free access to expert courses on subjects relating to work or personal development topics.

An internal Kudos Award programme has been implemented across the whole Group where staff and managers are able to recognise exceptional individual staff and team performance.

Due to the impact of COVID-19, the homeworking policy which was introduced in 2021 along with a series of flexible working and holiday policies have supported the workforce through the difficulties of balancing childcare with work commitments. Regular staff surveys were also conducted and provided staff with an opportunity to provide feedback on any issues they were facing, in order for Instem to provide support as appropriate.

Share scheme

The Group is a strong believer that having an effective employee share ownership programme helps to align employee interests with shareholders and continues to provide an effective tool in attracting, retaining and motivating employees. In 2020, the Group launched an annual share option award scheme to all employees which are subject to continued employment at the point of options vesting after three years, with the first vesting point arising in April 2023.

Customer Issues

Instem has a clear strategic objective of meeting customer needs and expectations in the products and services that are supplied. The following processes help Instem achieve this aim:

Software Development and Deployment

Instem has a comprehensive Software Development Lifecycle and robust testing processes that are overseen by Instem's ISO9001:2015 certified Quality Management System.

SaaS deployment of Instem solutions has enabled our customers to reduce their own IT infrastructure.

Customer Support

Instem offers various support services to help our customers use Instem solutions efficiently and effectively. These include installation and technical configuration support, training, validation, consultancy and a global helpdesk.

Instem also strives to meet customers' needs and expectations by regularly enhancing our software through new functionality and software changes.

Data Protection

Instem has a Group wide data protection policy and document framework that sets out processes and the legal conditions that must be satisfied in relation to the

obtaining, handling, processing, storage, transferring and destruction of personal information in relation to the laws and regulations of countries and regions in which Instem operates.

Information Security and Business Continuity

At Instem, Information Security is embedded into all aspects of our business and we use a combination of technical, administrative and procedural controls to protect IT and information from being compromised. Instem's security controls are managed according to our ISO 27001:2013 certified information security management system (ISMS) and implemented through a combination of people, technology and processes.

Instem's Business Continuity, Disaster Recovery and Information Security policies, procedures and assessments are designed to protect sensitive information and enable effective response to cyber or security threats. Our programs are designed to create a resilient operating environment with pre-planned response and recovery strategies in the event of business disruption. These strategies focus on safeguarding our people, assets, information and clients. Comprehensive cyber insurance is in place across the entire Instem organisation.

Instem maintains programs with frameworks and methodologies designed to effectively manage business continuity risk. Established emergency and crisis management activities and protocols have been interwoven into the Business Continuity Process. The Business Continuity Management Policy and Standards outline the mandates and minimum requirements that the business must follow to plan for and respond to disruptive events. Methods the Group has used are based on a proven, certifiable discipline (ISO 22301), although it should be noted that Instem is not certified to this standard.

Community Involvement and Development

With employees around the globe, we believe it is important to consider how our presence can benefit the local communities in which we operate.

This year, the Instem Charity Committee grew to seven members representing the UK, India, and US. The Instem Charitable Contribution Policy was also published which defines how the Group will financially support charitable causes that align with the company mission, vision, and values.

We also consider common cultural threads that unite us as a global organisation, whilst meeting the needs of our employees in every region, elements of this include:

- Supporting a number of charities, including matched-funding of employee fundraising events such as MIND – Mental Health, East Cheshire Hospice, Cancer Research UK, Boston Marathon

Jimmy Fund, Community Food Bank of New Jersey, Last Night a DJ Saved My Life / Adobe Junior School, Lichfield City of Sanctuary, Lullaby Trust, UAGTCA Kids Track and Field, Connah's Quay High School / F1 in Schools competition.

- Partnering with the INSPIRE Safety Pharmacology Horizon 2020 project, which includes funding two PhD students in France.
- Plans to extend the Group's graduate recruitment scheme and establish a graduate apprenticeship centre of excellence.
- Nature photography and children's nature drawing competitions which involved the sponsoring of an endangered animal at a zoo or issuing vouchers for an environmentally friendly shop.
- Sponsoring of a local bee colony near the Stone, UK office.
- Helping to make a positive difference in the lives of children in Tanzania through involvement with School in a Bag. Access to basic education is a human right and is part of a route out of poverty.

GOVERNANCE

Organisational Governance

At Instem, the Executive management team, under the direction of the Board of Directors, strives to attend to the interests of all its stakeholders. Shareholders' interests are also aligned with the long-term incentive plans provided to senior management, achievement of which is based on increasing the value of the company through an increasing Instem share price. Instem's Board of Directors is committed to an appropriate composition of the Board and considers ways of achieving this by soliciting institutional shareholders' views. In January 2023, an additional independent non-executive director was appointed.

Instem is committed to having effective governance practices to support the pursuit of its corporate objectives, using appropriate management processes and systems to deliver the highest standards of ethical business conduct and corporate governance.

To further support these goals, a Governance, Risk management and Compliance (GRC) department has been established, with the aim of providing Instem with a collection of capabilities that allow the business to reliably manage governance, identify and manage risks and to provide an independent, internal quality audit function to ensure the business remains in compliance.

The Board of Directors is responsible for oversight of risks and ESG matters facing the Group (such as social, ethical, environmental, legal and regulatory compliance, business model resilience). These matters are routinely included at each Group board meeting.

SECTION 172 STATEMENT

The Board recognises the importance of setting high standards of corporate governance and complying with all legal requirements. In particular, the Directors are required to act in accordance with a set of general duties as detailed within section 172 of the UK Companies Act 2006. These duties are summarised as follows;

A Director of a Company must act in a way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its shareholders as a whole and, in doing so, have regard (amongst other matters) to:

- The likely consequences of any decisions in the long-term
- The interests of the Group's employees
- The need to foster the Group's business relationships with suppliers, customers and others
- The impact of the Group's operations on the community and environment
- The desirability of the Group to maintain a reputation for high standards of business conduct; and
- The need to act fairly as between shareholders of the Company.

In accordance with section 172 of the Companies Act 2006 the Directors, collectively and individually, confirm that during the year ended 31 December 2022 they acted in good faith and have upheld their 'duty to promote the success of the Group' to the benefit of its stakeholder groups.

Directors acknowledge the importance of forming and retaining a constructive relationship with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Group.

Instem identifies seven key stakeholder groups associated with our business:

- Employees
- Clients
- Shareholders
- Partners
- Communities in which we operate
- Suppliers
- Environment

The Board recognises its duty to consider the needs and concerns of the Group's key stakeholders during its discussions and decision-making. The Board has had regard to the importance of fostering relationships with its stakeholders as set out below and also detailed in the strategic report and corporate governance report of this report. More information on how the Directors have discharged their duties under section 172 of the Companies Act 2006 is also available in the strategic report on pages 18 to 20 and corporate governance report on pages 30 to 33.

Employees

We recognise that our employees are critical to the success of our business and we focus considerable attention on their positive engagement. This commences from their initial induction into the Group where new joiners are introduced to our Group Values and our Culture Handbook, which provide a framework for ensuring an alignment between Group and employee interests.

The Board is fully committed to ensuring that the opinions of employees across all regions and business areas are regularly sought and factored into its decision-making process. The Group has put in place extensive measures to engage with its employees and these are described in full in the ESG section within this report on pages 15 to 17, including practical examples of how these have been applied during the year. Through these engagement activities the Board is able to gather opinions and ideas from the wider workforce, identify any communication gaps or common areas of concern and address these through the Group's activities.

There is frequent and open communication with employees, who are encouraged to share their opinions, informally and through regular surveys, both attributable and anonymously. We have consistently used the Gallup Q12 engagement questions in our surveys to identify trends and our survey questions have been expanded over recent years to align with those used by the Great Place to Work® organisation. Employee-led, location specific Action Groups propose and implement changes to address employee identified opportunities for improvement. Proposals are considered by the Executive management team and actioned accordingly.

Clients

We are fortunate to operate in an industry that has a highly collaborative culture with many businesses and scientific related societies and organisations. Instem

participates widely in these groups, networking closely with our clients and prospects, often taking a leadership role based on the considerable expertise of our staff and the broad experience we gain from working with many clients. In addition, Instem organises multiple client engagement forums related to sectors of our market, specific products and common industry practices or regulation. These Special Interest Groups provide input to strategy and operations, allowing us to ensure that our products and services meet the needs of the entire client (and prospect) community.

The Group is proactive in engaging directly with its clients to monitor and continually improve its service delivery and client satisfaction levels. We survey our clients annually and, more regularly, at the completion of each project and as we address each client support call. These surveys also help us to plan and prioritise changes to our products, services and the broader engagement we have with clients across our business. In the event that any concerns are raised by clients, the Group ensures that these are addressed swiftly and that proactive engagement occurs to ensure ongoing high standards of service delivery.

Our client Strategic Advisory Board (“SAB”), comprises senior individuals with a broad industry perspective, from a variety of client organisations. The SAB, which meets twice per year, is tasked with informing/validating Instem’s business, product and service strategy. It provides guidance to ensure Instem is successful in its mission to enable its clients to bring their life enhancing products to market faster.

The Group’s social media presence and activity has increased and improved during the year. At least daily or weekly updates are provided through the Company’s corporate social media channels (LinkedIn) and contain key updates. Finally during the year, the Group’s marketing team has enhanced its customer communications and the way in which campaigns, product launches and solution migrations are communicated. Targeted and personalised communications are agreed between the Group’s marketing team and customers’ account and service delivery managers, to ensure that the right customers are informed and guided through any changes which may affect them.

Shareholders

With the professional guidance of our joint broker and nominated adviser, Singer Capital Markets, joint broker Stifel Nicolaus Europe Limited and our financial public relations advisers, Walbrook PR, the Group engages with shareholders through multiple channels, aiming to provide clear and informative updates. Regulated News Service releases are provided regularly, both

those required as an AIM-listed business and additional releases to keep shareholders, and the wider market, informed about interesting business developments. We undertake multi-day institutional investor roadshows following the announcement of interim and full-year results, which provide an opportunity to also engage with a wider group of financial analysts and media. We typically organise, or attend, retail investor events, to ensure all shareholders have access to executive management on a regular basis.

As broker research is typically not available to all shareholders, we engage Progressive Equity Research to produce additional analyst research, which is freely available from the Instem Investor Centre website and through other investor channels. In addition, we subscribe for services from Proactive Investor who make a range of Instem video and audio interviews available for shareholder and wider investor consumption, aggregated with their own financial journalist coverage of Instem news.

Our annual general meeting (AGM) provides a formal avenue to receive shareholder feedback and an opportunity for us to consider the implications should resolutions not pass unanimously. We also take note of feedback from shareholder representative groups, who typically provide structured feedback ahead of annual general meetings. We ensure that shareholders are treated equally and fairly, regardless of the size of their shareholding or their status as a private or institutional shareholder. The Group provides clear and timely communications to all shareholders in their chosen communication medium, as well as via the Group’s website and via Regulatory News Service.

Additionally, the Group’s annual report and accounts is made available to all shareholders both online and in hard copy where requested. All presentations and announcements and other key shareholder information is available on the investor section of the Group’s website.

Partners

Instem has a number of strategic partners, with whom we actively engage to enhance our portfolio of world-leading products and services. Formal agreements govern these relationships and nominated Instem employees are responsible for maintaining a regular and open dialogue to ensure ongoing alignment of interests. We frequently engage our partners in the wide variety of methods of client engagement described above to ensure they have a direct two-way line of communication with the end-users.

The Group actively encourages feedback from the Group’s partner firms on the quality of its services and products to support continuous improvement.

Communities

Instem has several offices around the world and many employees who work from home. We recognise our role as responsible employers and community representatives and encourage and support our staff in this regard, regularly providing matching funding for charitable activities. There are regular staff organised fund raising events and other activities to support local causes that occur within our offices. Clearly this has been harder to accomplish during COVID-related office lockdown but we have done so wherever possible, for example we continued to pay our office cleaning staff despite offices being closed.

Significantly, from a global community perspective, we also recognise the considerable role we play in helping our clients to provide their life enhancing products across the world. We continually assess how we can optimise what we do to accelerate the availability of safe and effective drugs, vaccines and medical devices, as well as safer and more effective agrochemicals, that help to increase production to feed an ever-growing world population.

The Board ensures that decisions made are responsible and ethical by taking into consideration the wider society external to the organisation. The Group is committed to contributing towards the community in which it operates.

Suppliers

The Group engages closely with its suppliers and has internal procedures to ensure that appropriate due diligence is undertaken on these firms when they are engaged. Engagement with any new suppliers is subject to a formal process and requires final approval from Instem's Governance, Risk management and Compliance (GRC) department.

Significant supplier contracts, of a recurring nature, require approval from the Board as a whole. These suppliers are chosen according to their ability to meet the Group's own high standards and to demonstrate values that are consistent with those of the Group.

The Group is committed to building trusted partnerships with the Group's suppliers, which are crucial to delivering many of our commitments.

The environment

As a provider of software solutions, the Group's operations have a relatively limited impact on the environment. However, the Board is committed to implementing measures that will result in incremental

improvements to the Group's environmental impact, such as minimising paper usage, considering the environmental credentials of its office spaces and by avoiding unnecessary travel and using video-based meeting facilities where appropriate.

We do encourage efficient energy usage and recycling in office. Through investment in technology, staff in the right places and changing business practices, we are also striving to reduce the amount of air travel for staff between our international offices and to our globally dispersed client-base. For further details on this refer to page 13 to 15.

Finally, the Directors of the Group must act in a way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its shareholders as a whole and, in doing so, they have regard (amongst other matters) to the below:

Maintaining a reputation for high standards of business conduct

The Group is mindful that the continued growth and success of the Group is dependent upon maintaining high standards of business conduct, including:

- the ability to successfully compete within the market, to attract and retain clients, and to service these clients to a high standard;
- the ability to attract and retain high quality employees;
- the ability to attract investors and to meet their expectations of good governance and sound business conduct; and
- the ability to meet the Group's regulatory obligations, and to meet the expectations of relevant regulatory bodies.

This awareness underpins the formulation of the Group's strategy and is evident throughout the Board's decision making process.

Ensuring that members of the Company are treated fairly

The Group ensures that the Group's shareholders are treated equally and fairly, regardless of the size of their shareholding or their status as a private or institutional shareholder. The Group provides clear and timely communications to all shareholders in their chosen communication medium, as well as via the Group's website.

FINANCIAL REVIEW

Key Performance Indicators (KPIs)

The directors review monthly revenue and operating costs to ensure that sufficient cash resources are available for the working capital requirements of the Group. Primary KPIs at the year-end were:

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000	Change
Total revenue	58,880	46,017	28%
Recurring revenue ¹ *	34,473	24,082	43%
Annual Recurring revenue ¹	34,967	28,741	22%
Recurring revenue as a percentage of total revenue	59%	52%	700bps
Adjusted EBITDA ¹ **	10,863	8,250	32%
Adjusted EBITDA Margin %	18.4%	17.9%	50bps
Cash and cash equivalents	13,964	15,021	(7%)
Customer retention rate for recurring SaaS and Annual Support revenue	>98%	98%	-
Operating profit after non-recurring items	5,593	4,098	36%

¹ For an explanation of the alternative performance measure in the report, please refer to page 23.

* Recurring revenue includes Annual Support fees and SaaS subscription fees.

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

In addition, non-financial KPIs are periodically reviewed and assessed, including customer and staff satisfaction.

Instem's revenue model consists of perpetual licence income with annual support and maintenance contracts, professional services, technology enabled outsourced services fees, SaaS subscriptions and consultancy services.

Total revenues increased by 28% to £58.9m (2021: £46.0m) with constant currency revenue growth at 20%. This includes full year revenue contributions from The Edge, d-Wise and PDS, which were acquired in March, April and September 2021 respectively. Recurring revenue, comprising Support & Maintenance contracts and SaaS subscriptions, increased during the year by 43% to £34.5m (2021: £24.1m). Recurring revenue as a percentage of total revenue was 59% (2021: 52%). The recurring revenue as a percentage of total revenue has increased over the year primarily due to the change of d-Wise revenue mix moving towards recurring revenue instead of consulting services. Revenue from technology enabled outsourced services increased to £8.5m (2021: £6.4m).

Operating expenses excluding the non-recurring items increased by 27% in line with revenue reflecting the full year cost of the 2021 acquisitions, ongoing investment in operational teams and the increase in the rate of inflation, primarily in salaries.

Adjusted earnings before interest, tax, depreciation, amortisation, impairment of goodwill and non-recurring items (Adjusted EBITDA) increased by 32% to £10.9m (2021: £8.3m). For this measure of earnings, the margin as a percentage of revenue increased in the period to 18.4% from 17.9% in 2021, as the Group managed to increase the revenue in line with the salary inflation.

Non-recurring costs in the period were £1.2m (2021: £1.3m), consisting of £0.1m for legal expenses associated with an historical contract dispute and an additional provision of £1.2m (£1.0m) which relates to the full and final settlement of the dispute that originally arose in 2017. The historical contract dispute was settled in 2022 for £1.5m (£1.3m). The non-recurring costs also include acquisition costs of £0.08m (2021: £1.0m) in respect of the earn out consideration of the Edge and d-Wise.

Non-recurring income of €0.5m (£0.4m) relates to an insurance payment in relation to the historical contract dispute, refer to note 4 for non-recurring items.

The reported profit before tax for the year was £5.5m (2021: profit of £3.0m). The calculation of the adjusted profit before tax was changed in 2022 to include two additional components; the effect of foreign currency exchange and the unwinding of the financial liability included in finance income/(costs). Those two components have been included to better reflect the normalised, ongoing operations of the Group. Adjusted profit before tax (i.e, adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items, impairment of goodwill and amortisation of intangibles arising on acquisitions) was £8.2m (2021: £5.9m, as restated).

The total income tax charge in the year of £0.78m (2021: £1.3m) is an effective tax rate of 14.2% (2021: 43.8%). The decrease in the tax charge is mainly due to the benefit from deferred tax of the UK corporation tax losses together with the US tax benefit available on the d-Wise acquisition. In the UK, the Group continues to receive additional tax relief on its research and development expenditure.

The Group continues to maintain its investment in its product portfolio. Research and development costs incurred during the year were £7.5m (2021: £4.9m), of which £3.0m (2021: £2.2m) was capitalised. The Group has a development process in place and is committed to ensure its own technology continues to evolve to meet client needs.

The Group operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency, and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into Sterling. The primary currency that exposed the Group to foreign currency risk in 2022 were the US dollar transactions. In 2022, the revenue and Adjusted EBITDA growth on a constant currency basis, excluding the foreign exchange exposure was, 20% and 19% respectively. The foreign exchange gain recorded during 2022 was £0.93m (2021: loss £0.04m), which is composed of realised and unrealised gains/losses.

Basic and diluted earnings per share calculated on an adjusted basis were 32.8p and 31.3p respectively (2021: 21.5p basic and 20.4p diluted, as restated). The reported basic and diluted earnings per share were 20.8p and

19.8p respectively (2021: 7.8p basic and 7.4p diluted).

The Group cash generated from operations for the year was £9.9m (2021: £10.3m), a small reduction from prior year primarily due to working capital movement and the settlement of the historical contract dispute. The deferred and contingent consideration payments of £5.4m which related to the 2021 acquisitions were part of the net cash used in financing activities. The net cash used in investing activities includes £3.0m (2021: £2.2m) from the capitalisation of software development. As a result, of the above the gross cash balance decreased from £15.0m at 31 December 2021 to £14.0m at 31 December 2022. In addition to its organic cash reserves the Group has access to an HSBC debt facility of up to £20m, which was unutilised at the year end.

The remaining financial obligations associated with The Edge and d-Wise acquisitions for 2023 are deferred and contingent consideration payments of £3.6m and £2.2m respectively in cash. The contingent consideration provision reflected management's estimate that the entities would achieve their profitability targets and that the full amount of contingent consideration would be paid. This profitability target was confirmed in the period.

Goodwill included in intangible assets reduced from 31 December 2021 to 31 December 2022 due to an impairment loss of £0.11m on Samarind's goodwill realised on disposal. Offsetting this there was an increase in d-Wise goodwill of £0.05m (US\$0.06m) due to a change in the contingent consideration paid (note 12).

The latest triennial actuarial valuation of the Group's legacy defined benefit pension scheme as at 5 April 2020, was completed in July 2021. As part of the process, the Group has agreed a revised Schedule of Contributions with the Trustees of the Scheme, which are intended to clear the Scheme deficit by 30 September 2026 (note 25).

On 31 December 2022, the IAS19 accounting pension deficit was unchanged at £2.0m (2021: £2.0m). The agreed Group cash contributions currently approximate to £0.6m per annum, payable through to September 2026. The deficit at the 2022 year-end of £2.0m (2021: £2.0m) is represented by the fair value of assets of £8.4m (2021: £14.0m) and the present value of funded obligations of £10.4m (2021: £16.0m), after applying a discount rate of 4.8% (2021: 1.9%).

Movements in share capital and the share premium, merger and share based payment reserves reflect the

exercise of share options during the period, the fair value of share options granted being charged to the Statement of Comprehensive Income and the issue of shares paid in lieu of cash as deferred consideration for d-Wise. The share capital of Instem at 31 December 2022 was 22,704,308 ordinary shares of 10p each (note 27).

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

Alternative performance measures

This Annual Report and Accounts contains certain financial alternative performance measures (“APMs”) that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group. This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies.

The table below provides the data for certain performance measures mentioned above:

	2022 £000	2021 £000
Annual support fees	20,815	14,378
SaaS subscription and support fees	13,658	9,704
Recurring revenue	34,473	24,082
Licence fees	6,049	4,597
Professional services	3,229	3,651
Technology enabled outsourced services	8,496	6,378
Consultancy services	6,633	7,309
Total revenue	58,880	46,017

Recurring revenue is the revenue that repeats annually under contractual arrangements. It highlights how much of the Group’s total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business.

	2022 £000	2021 £000
Annual Recurring Revenue	34,967	28,741

Annual Recurring Revenue is the revenue that the Group is currently contracted to provide, for the next 12 months, for software Annual Support fees and SaaS Subscription fees. The revenue is also adjusted with new or terminated contracts that took place in the year.

	2022 £000	2021 £000
EBITDA	10,056	7,769
Non recurring cost (see note 4)	1,208	1,286
Non recurring income (see note 4)	(401)	(805)
Adjusted EBITDA	10,863	8,250

Adjusted EBITDA is EBITDA plus non-recurring items (as set out in note 4). The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size and the Board considers that this metric provides the best measure of assessing underlying trading performance.

STRATEGIC REPORT (CONTINUED)

	2022 £000	2021 as re-stated £000	2021 as originally reported £000
Profit before tax	5,473	2,984	2,984
Amortisation of intangibles arising on acquisition	1,953	1,563	1,563
Non recurring cost (see note 4)	1,208	1,286	1,286
Non recurring income (see note 4)	(401)	(805)	(805)
Impairment of goodwill (note 12)	107	-	-
Intercompany foreign exchange (gain)/loss	-	-	(18)
Foreign currency exchange (gain)/ loss (note 5 and note 6)	(932)	44	-
Unwinding discount on deferred consideration (note 6)	771	867	-
Adjusted profit before tax	8,179	5,939	5,010

The calculation for the adjusted profit before tax was changed in 2022 compared with prior periods by including two additional components, the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs). Those two components have been included as adjustments as they do not affect the ongoing operations of the Group.

Adjusted profit before tax is after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items, impairment of goodwill and amortisation of intangibles arising on acquisitions. The same adjustments are also made in determining adjusted earnings per share ("EPS"). The Board considers this adjusted measure of operating profit provides the best metric of assessing underlying performance.

	2022 £000	2021 £000
Weighted average number of shares ('000's)	23,686	22,719
Adjusted diluted earnings per share	31.3p	20.4p
Cash at bank	13,964	24,019
Bank overdraft	-	(8,998)
Cash balance	13,964	15,021

UPDATE ON HISTORICAL CONTRACT DISPUTE

An historical contractual licence dispute, which did not affect the ongoing operations of the Group, was settled in October 2022.

As previously announced, the Group created a provision of £0.25m in 2017 and this was maintained in the 2021 financial statements. In 2022, the Group increased the provision equal to the amount that the legal dispute was settled of €1.48m (£1.3m), of which its insurer agreed to contribute €0.45m (£0.4m) resulting in a net payment due of approx. €1.0m (£0.9m).

PRINCIPAL RISKS AND UNCERTAINTIES

The directors consider that the global pharmaceutical market is likely to continue to provide growth opportunities for the business. The combination of the high level of annual support renewals and low levels of customer attrition provides revenue visibility to underpin the Group strategy on product and market development. However, the Group's products may be adversely affected if economic and market conditions are unfavourable and revenue may be affected by the impact of accounting or regulatory changes and/or funding restrictions in the industry.

The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme. Additionally, the Group has a significant proportion of recurring revenue (circa 59% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Consequently, the Group ensures that it maintains a diversified portfolio in terms of customers, revenue mix, geography and markets.

Market and economic conditions

Market and economic conditions are recognised as principal risks in the current trading environment. The risk is mitigated by the monitoring of trading conditions and the constant search for ways to achieve efficiencies in the business without impacting levels of service. Additionally, the inflationary environment is being closely monitored. The Group is able to reduce the exposure in its client contracts with the vast majority allowing for inflationary increases to be applied to future fees.

The risk to the Group, as for most businesses, in regard to the COVID-19 pandemic appears to have peaked and we are not anticipating any material adverse impact on future trading. The Group has coped well with the COVID-19 pandemic, with staff working efficiently from home and the majority of the business relatively unaffected.

The Board considers the Group is relatively well protected against significant customer risk due to the Group's diverse customer base. At the date of approval of these financial statements the macro-economic conditions remain unpredictable and as such remain a risk to the business which the Board continues to closely monitor.

Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into Sterling. The main currency giving rise to this risk is US dollars. The Group mitigates the foreign currency risk by having both cash inflows and outflows in the relevant foreign currency due to local revenue generation generally offset by a local cost base that creates a natural hedge.

The Group generates material cash reserves through its Chinese subsidiary that are not readily available to the UK Group at short notice and, as such, the Group has to maintain sufficient working capital headroom in other territories to accommodate any delays in repatriating cash from China. In managing currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's cash inflows and outflows in a foreign currency. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth. Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. A 10% decrease in the average value of Sterling against the US dollar would have resulted in an increase in the Group's profit before tax by approximately £0.7m (2021: £0.6m).

Credit risk

Management aims to minimise the risk of credit losses. The Group's financial assets are bank balances and cash, and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and the Group has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness. No customer individually amounts to more than 10% of the Group revenue. At the 2022 year end the Group had a maximum credit risk exposure of £18.3m (2021: £14.9m).

The amounts presented in the statement of financial position are net of impairment provisions.

Note 16 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due. The Group's objective is to ensure that adequate facilities are available through use of bank overdrafts and leases. The Group manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs. The Group regularly monitors its available headroom under its borrowing facilities, for further details refer to the going concern review.

The Group signed a new financing arrangement in April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc, to support the Group's working capital needs and its acquisition strategy. The facility can also be extended up to £20.0m, if needed, subject to additional bank approval. The financial covenants have been considered in the cash forecast to ensure compliance.

The Group had positive gross cash reserves of £14.0m at the end of the period, although £3.2m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly.

Cyber risk

The Group handles significant amounts of data electronically and is therefore extremely aware of the risks that a cyber-attack could have on its business. It has robust standards in place for establishing and maintaining systems and processes to ensure that the highest standards of data protection are in place. This also applies to any third party who is handling data on behalf of the Group and its customers, such as third-party hosting providers. All staff are trained in identifying and responding to any perceived, or actual, cyber attacks. The Group maintains separate insurance cover to protect against the financial implications of any cyber threat.

Technology risk

Due to the evolving nature of technology platforms there is a risk of obsolescence. The Group's future performance depends on software development, by introducing new and enhancing existing products to meet customer demand. If the Group does not respond effectively to technological changes, changes in client

requirements and regulatory industry changes then its business may be negatively affected.

The Group monitors this risk and develops strategic development plans to ensure it remains compliant with technological advances. Additionally, the Group produces roadmaps for its key software products through its close relationships with clients and partners. In addition, the Group reviews forthcoming regulations to identify any need to change existing products and to identify opportunities for developing new products and services.

Acquisition and integration risk

With a strategy for growth, the Group ensures that acquisitions are handled appropriately from the outset. Acquiring differing businesses with differing technologies, people, competencies and processes creates risk to both customers and the products and services being acquired plus the Group's existing operating model. Given the Group's acquisition strategy this is considered an ongoing risk. The Group considers this risk split into three main areas with the following mitigations in place:

- Acquisition target risk – the risk that the Group is unable to identify suitable acquisition targets. This risk is managed by a combination of internal resource dedicated to identifying targets complemented by use of external advisors.
- Acquisition integration risk – the risk that completed acquisitions are not integrated into the underlying business in an efficient or effective way leading to potential loss of customers and employees from the acquired business. The risk is managed by detailed planning to ensure acquisitions are integrated effectively.
- Post-acquisition performance risk – the risk that the acquired business may not perform as well as expected or synergies may not be delivered as planned. This has the potential to adversely impact both cashflow and profits post acquisition.

Due diligence and integration planning help manage this risk including the use of experts throughout the acquisition process. The Group manages this risk by regular reviews of the operational structure and resource required to deliver to customers without degrading service.

Recruitment and retention risk

As its people are the Group's major asset, it is critical to ensure that it recruits the best staff possible and

that these individuals are rewarded and developed appropriately. If the Group is unable to attract and retain suitably qualified personnel it is unlikely to meet its growth objectives and stakeholder expectations. The Group has a global People and Culture team that manages the process of ensuring the staff benefit and reward packages are incentivising for both recruitment and retention purposes. This includes benchmarking against peers and industry norms and considers staff feedback through regular performance review. During 2020 the Group implemented an all-staff share scheme for the first time and has made annual awards thereafter. The options from the 2020 award were vested and became exercisable in April 2023.

POST PERIOD-END

For the material subsequent events refer to note 33, as these have a bearing on the understanding of the financial statements.

OUTLOOK

This was another strong period for the Company with continued growth in routes to market and higher future visibility SaaS revenues. The enlarged Group added a number of contracts from existing and new clients, benefiting from the Acquisitions made during 2021, while the core product suite and strong market backdrop continued to underpin organic growth.

New contracts won during the Period provide further validation of our market position while our software suite also provides a firm foundation from which the Group can continue to evolve. The long-term nature of our relationships, combined with our growing range of solutions, underpin the Board's continued confidence in our ability to deliver future success.

Notwithstanding wider concerns around the funding environment for drug discovery and development, we have seen no evidence of slowdown to date and our focus remains on further broadening our portfolio of products and solutions that are attractive across the spectrum. This will continue to drive value while demonstrating the strength of our proposition.

Looking forward, we have a strong order book, and the Company is well placed to benefit from industry consolidation as well as continued loyalty from existing clients. We have rationalised the non-core elements of our portfolio and positioned ourselves to benefit from increased cross selling, to win and service customer contracts of all sizes and we look forward to building on the strong start to trading during the current year. The post period-end launch of the Centrus product suite further enhances our *In Silico* portfolio. This is an integral part of our long-term growth strategy and

a significant area of planned investment for us over the next 12 months or so, reflecting broader market trends and growing demand for data insight leveraging computational and artificial intelligence based solutions. We will continue to focus on organic and, where appropriate, acquisitive growth opportunities as we build out high-margin revenue lines while delivering on our commitment to help our clients bring their life enhancing products to market faster.

P J Reason

Chief Executive

13 May 2023



Non-executive Chairman

David Gare

David was a founder member of the Company's former parent, Instem Limited, and led the resulting businesses through most of their history. David successfully achieved a succession of strategic developments for Instem Limited, including its sale to Kratos Inc. in 1976, its MBO in 1983, its flotation on the USM in 1984, its flotation on the Official List in 1996, its public to private and demerger in 1998 and the buyout of Instem LSS Limited from Alchemy Partners in 2002. Throughout, David has concentrated on value creation through achievement of a strong market position.



Chief Executive Officer

Phil Reason

Phil is an experienced chief executive who has developed a number of IT businesses in the life sciences and nuclear industries, both organically and through acquisition. Phil joined the former parent Company, Instem Limited, in 1982 and was appointed Managing Director of the Life Sciences division in 1995 and Chief Executive Officer of Instem LSS Limited on the demerger from Instem Limited. Given the importance of the North American market to Instem's organic and acquisitive growth, Phil relocated from the UK to the US in 2003 and established a new headquarters in the Philadelphia area. Phil previously ran Instem Limited's Nuclear and Laboratory Information Management Systems integration businesses.



Chief Financial Officer

Nigel Goldsmith

Nigel, who joined Instem in November 2011, has a wealth of experience in senior financial roles, at both public and private companies within the pharmaceutical industry. After qualifying as a Chartered Accountant, Nigel spent over nine years at KPMG prior to moving into industry. Nigel was Finance Director for three years at AIM listed, pharmaceutical and medical device company, IS Pharma plc. He also spent a seven-year tenure as CFO at Almedica International Inc, a privately held supplier of clinical trial materials to the pharmaceutical and biotech industry in Europe and the US and two years as European Controller for the sales and marketing division of laboratory equipment manufacturer, Life Sciences International plc.



Non-executive Director

Mike McGoun

Mike has a wealth of management experience within the IT industry. He spent 10 years at IBM prior to co-founding a successful ComputerLand franchise in 1984. In 1994, Mike moved to SkillsGroup plc as a main board director, with responsibility for corporate development and later as a non-executive director. Mike was founder and non-executive Chairman of Tikit Group plc prior to its disposal to BT plc in 2012.



Non-executive Director

Riaz Bandali

Riaz has spent his entire career in the healthcare and life sciences industries in a variety of strategic, commercial and operational roles at senior level, also including exposure to fundraising and M&A activity. Riaz is currently President, Nordion Inc (a Sotera Health Company), the global leader in the provision of Cobalt 60 and gamma irradiation systems for medical devices, PPE, food safety, health care and oncology purposes. His previous role was as CEO of Emerald Health Therapeutics, a role he held for three years. Prior to that, Riaz was with Syneos Health for nine years, firstly leading their Early Stage Contract Research Services business then becoming Chief Innovation Officer and more recently as President, Early Phase Development and Translational Sciences, with responsibility for a team of 900 people globally.



Non-executive Director

Mary Dolson

Mary is an expert advisor on regulatory, financial and accounting compliance issues, with extensive experience advising businesses in the pharmaceutical, biotech and life science sectors. Most recently, Mary was a Non-Executive Director at Nuvelution Pharma Inc (Boston, USA) between 2019 and 2021, where she consulted as an expert in finance, modelling, and risk across all phases of the pharmaceutical and biotech industry. Mary has spent most of her career in audit and served as a PwC partner in London for over 20 years, where she became the Global Lead on pharmaceutical industry accounting and reporting before retiring in 2018. Mary was a founding member of the 'Pharma Forum', an industry based International Financial Reporting Standards working group. Mary served as a Non-Executive Committee Member for the Financial Reporting Review Panel (UK), from 2011 until December 2020.

In accordance with AIM Notice 50 issued by the London Stock Exchange, 8 March 2018, The Group has adopted the Corporate Governance Guidelines for Small and Medium Size Quoted Companies published by the Quoted Companies Alliance (the QCA Code) and aims to ensure compliance where possible. The main features of the Group's corporate governance procedures, in relation to the 10 Principles of the QCA Code, are set out in the full QCA *Code Compliance* at <https://investors.instem.com/corporate/governance.php>.

As noted in the Organisational Governance section of the Strategic Report above, the Board seeks to maintain a strong governance ethos throughout the Group and is actively taking steps to address any shortcomings, such as the composition of the Board. The Board recognises its overall responsibility for the Group's systems of internal control and for monitoring their effectiveness.

The main features of the Group's corporate governance procedures are as follows:

- a. the Board has two independent non-executive directors who takes an active role in Board matters;
- b. the Group has an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which consists of the non-executive directors, and meets regularly with executive directors in attendance by invitation. The Audit Committee has unrestricted access to the Group's auditor and ensures that auditor independence has not been compromised;
- c. all business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of "matters referred to the Board"; and
- d. regular monitoring of key performance indicators (KPIs) and financial results together with comparison of these against expectations. KPIs assessed are both financial and non-financial.

AUDIT COMMITTEE

As of 31 December 2022, the Audit Committee comprised M F McGoun (Chairman), D Gare, D M Sherwin and R Bandali, all of whom are non-executive directors of the Group. The Board is satisfied that the Audit Committee has all the recent and relevant financial experience required to fulfil the role.

In January 2023, Mary Dolson was appointed as Independent Non-Executive Director to the Board and Chair of the Audit Committee. David Sherwin, Non-

Executive Director, has announced his intention to step down from the Board effective 31 January 2023.

In January 2023 the Audit Committee was revised and comprises M Dolson (Chair), M F McGoun and R Bandali.

Appointments to the Audit Committee are made by the Board in consultation with the Nomination Committee and the chairman of the Audit Committee. The Audit Committee met once during the year and may meet at any other time as required by either the chairman of the Audit Committee, the Chief Financial Officer of the Group or the external auditor of the Group. In addition, the Audit Committee shall meet with the external auditor of the Group (without any of the executives attending) at any time during the year as it deems fit. The Audit Committee:

- a. monitors the financial reporting and internal financial control principles of the Group;
- b. maintains appropriate relationships with the external auditor including considering the appointment and remuneration of the external auditor and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process;
- c. reviews all financial results of the Group and financial statements, including all announcements in respect thereof before submission of the relevant documents to the Board;
- d. reviews and discusses (where necessary) any issues and recommendations of the external auditor including reviewing the external auditor's management letter and management's response;
- e. considers all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditor;
- f. reviews the Board's statement on internal reporting systems and keeps the effectiveness of such systems under review; and
- g. considers all other relevant findings and audit programmes of the Group.

The Audit Committee is authorised to:

- a. investigate any activity within its terms of reference;
- b. seek any information it requires from any employee of the Group; and
- c. obtain, at the Group's expense, outside legal or other independent professional advice and to secure the attendance of such persons to meetings as it considers necessary and appropriate.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Attendances of directors at Board and Committee meetings convened in the period, along with the number of meetings they were invited to attend, are set out below. In 2022, all meetings were held by remote video calls.

No. of meetings attended / No. of meetings invited to attend				
	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
P J Reason	6/6	1/1	1/1	1/1
N J Goldsmith	6/6	1/1	1/1	1/1
Non-Executive Directors				
D Gare	6/6	1/1	1/1	1/1
D M Sherwin	6/6	1/1	1/1	1/1
M F McGoun	6/6	1/1	1/1	1/1
R Bandali	6/6	1/1	1/1	1/1

REMUNERATION COMMITTEE

As of 31 December 2022, the Remuneration Committee comprised M F McGoun (Chairman), D Gare, D M Sherwin and R Bandali, all of whom are non-executive directors of the Group.

In January 2023 the Remuneration Committee was revised and comprises R Bandali (Chairman), M F McGoun and M Dolson.

The members of the Remuneration Committee are appointed by the Board on recommendation from the Nomination Committee, in consultation with the Chairman of the Remuneration Committee. The Chief Executive Officer of the Group is normally invited to meetings of the Remuneration Committee to discuss the performance of other executive directors but is not involved in any of the decisions. The Remuneration Committee invites any person it thinks appropriate to join the members of the Remuneration Committee at its meetings. The Remuneration Committee meets at least once a year and any other time as required by either the Chairman of the Remuneration Committee or the Chief Financial Officer of the Group.

The Remuneration Committee:

- ensures that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Group but also ensures that the Group avoids paying more than is necessary for this purpose;
- considers the remuneration packages of the executive directors and any recommendations made by the Chief Executive Officer for changes to their remuneration packages, including in respect of bonuses (including associated performance criteria), other benefits, pension arrangements and other terms of their service contracts and any other matters relating to the remuneration of or terms of employment applicable to the executive

directors that may be referred to the Remuneration Committee by the Board;

- oversees and reviews all aspects of the Group's share option schemes including the selection of eligible directors and other employees and the terms of any options granted;
- demonstrates to the Group's shareholders that the remuneration of the executive directors is set by an independent committee of the Board; and
- considers and makes recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those required by law, or by the London Stock Exchange.

The Chairman of the Remuneration Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee produces an annual report which is included in the Group's annual report and accounts.

The Remuneration Committee is authorised to:

- investigate any activity within its terms of reference;
- seek any information it requires from any employee of the Group;
- assess the remuneration paid by other UK listed companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors' remuneration is appropriate for the purpose of making their remuneration competitive or otherwise comparable with the remuneration paid by such companies; and
- obtain, at the Group's expense, outside legal or other independent professional advice, including independent remuneration consultants, when the Remuneration Committee reasonably believes it is necessary to do so and secure the attendance of such persons to meetings as it considers necessary and appropriate.

NOMINATION COMMITTEE

As of 31 December 2022, the Nomination Committee comprised M F McGoun, D M Sherwin and R Bandali, all of whom are non-executive directors of the Group.

In January 2023 the Remuneration Committee was revised and comprises D Gare (Chairman), M F McGoun, R Bandali and M Dolson.

Appointments to the Nomination Committee are made by the Board, in consultation with the Chairman of the Nomination Committee.

The Nomination Committee may invite any person it thinks appropriate to join the members of the Nomination Committee at its meetings.

The Nomination Committee:

- a. reviews the structure, size and composition (including skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes;
- b. gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and what skills and expertise are needed on the Board in the future;
- c. is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise; and
- d. evaluates the balance of skills, knowledge and experience on the Board before an appointment is made and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

The Chairman of the Nomination Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Nomination Committee also makes recommendations to the Board concerning:

- a. formulating plans for succession for both executive and non-executive directors and in particular the key roles of Chairman of the Board and Chief Executive Officer;
- b. membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees;
- c. the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and

ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

- d. the re-election by shareholders of any director under the “retirement by rotation” provisions in the Company’s articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- e. matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Group subject to the provisions of the law and his/her service contract; and
- f. the appointment of any director to executive or other office other than to the positions of Chairman of the Board and Chief Executive Officer, the recommendation for which would be considered at a meeting of the full Board.

The Nomination Committee is authorised to:

- a. investigate any activity within its terms of reference;
- b. seek any information it requires from any employee;
- c. obtain outside legal or other independent professional advice at the Group’s expense when the Nomination Committee reasonably believes it is necessary to do so; and
- d. instruct external professional advisors to attend any meeting at the Group’s expense if the Nomination Committee considers this reasonably necessary and appropriate.

INTERNAL CONTROLS

The directors are responsible for establishing and maintaining the Group’s system of internal control and reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board and senior executives meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an ongoing basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage. This approach is also adopted for any corporate acquisition, whereby controls, systems and processes of the target company are assessed during

the due diligence phase and any areas of remediation are included in the planning of the Integration process post-acquisition.

During 2022, there was a high emphasis on understanding the existing control environment with the new acquisitions, identifying and reporting the issues to the local management, assisting on implementing the appropriate controls and integrating with existing internal controls. There is an ongoing integration process into our certified management systems for all acquisitions and the Group target is to apply the same internal controls for the Edge, d-Wise and PDS.

On behalf of the Board

M F McGoun

Non-Executive Director

13 May 2023

Instem plc is a company listed on AIM and it is not required to comply with Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to directors' remuneration reports or the Listing Rules. The disclosures contained within this report are, therefore, made on a voluntary basis and in keeping with the Board's commitment to best practice.

REMUNERATION COMMITTEE

The Remuneration Committee ('the Committee') is composed entirely of non-executive directors. The Committee was formed upon the public listing of the Company on 13 October 2010. The Chairman of the Committee is R Bandali, effective January 2023. The terms of reference for the Committee are to determine the Group's policy on executive remuneration and to consider and approve the remuneration packages for directors and key executives of the Group, subject to ratification by the Board. During the year, the Committee met on one occasion. Full details of the elements of each director's remuneration are set out on the following page 35. Details of share-based payment are shown in note 10 to the financial statements.

POLICY ON EXECUTIVE DIRECTOR REMUNERATION

The Group's current and ongoing policy aims to ensure that executive directors are rewarded fairly for their individual contributions to the Group's overall performance and is designed to attract, retain and motivate executives of the right calibre. The Committee is responsible for recommendations on all elements of executive remuneration including, in particular, basic salary, annual bonus, share options and any other incentive awards. In implementing the remuneration policy, the Committee has regard to factors specific to the Group, such as salary and other benefit arrangements within the Group and the achievement of the Group's strategic objectives. The Committee determines the Group's Policy on executive remuneration with reference to comparable companies of similar market capitalisation, location and business sector.

BASIC SALARY

The basic salaries of executive directors are reviewed annually having regard to individual performance and position within the Group and are intended to be competitive but fair using information provided from both internal and external sources.

PERFORMANCE RELATED ANNUAL BONUS

Executive directors are eligible for a performance related bonus based on Group performance, in particular, the achievement of profit targets. The performance related annual bonus forms a significant part of the level of remuneration considered appropriate by the Committee. In addition to the formal bonus scheme, the Committee has the discretion to recommend the payment of ad hoc awards to reflect exceptional performance. Cash bonuses amounting to £nil were payable to executive directors in respect of the year ended 31 December 2022 (2021: £47,000).

PENSIONS

Company contributions are made to the executive directors' personal pension schemes up to a maximum of 16.5% of basic salary.

BENEFITS

Benefits comprise car and fuel allowance, private healthcare and critical illness cover. No executive director receives additional remuneration or benefits in relation to being a director of the Board of the Group or any subsidiary of the Group.

SERVICE CONTRACTS

The Executive directors have contracts with notice periods between six and twelve months.

The Board determines the Group's policy on non-executive directors' remuneration.

D Gare, D M Sherwin M F McGoun and R Bandali each have a letter of appointment with a notice period of three months. The emoluments paid or payable to directors in respect of the year ended 31 December 2022 were as follows:

	Salary and Fees	Bonus	Benefits	Pension	2022 Total	2021 Total
Executives						
P J Reason*	236	-	30	34	300	289
N J Goldsmith	145	-	12	9	166	161
Non-executives						
D Gare	65	-	-	-	65	65
D M Sherwin	33	-	-	-	33	33
M F McGoun	40	-	-	-	40	40
R Bandali	36	-	-	-	36	3
Total	555	-	42	43	640	591

* The remuneration in respect of P J Reason is payable in US Dollars and translated at the average rates as disclosed on page 59. The total remuneration paid in the year was USD 371,000 (2021: USD 396,500).

DIRECTORS' AND EMPLOYEES' SHARE OPTIONS

	Exercise price (£)	Issue date	Held at 31 Dec 2021	Granted during year	Exercised during year	Lapsed during year	Held at 31 Dec 2022
P J Reason							
Ordinary shares	0.90	14/01/2013	23,429				23,429
	Nil	22/02/2018	80,000		(80,000)		-
	Nil	26/06/2020	76,000				76,000
	Nil	16/04/2021	4,387				4,387
	Nil	27/09/2021	25,000				25,000
	Nil	02/03/2022		4,833			4,833
							133,649
N J Goldsmith							
Ordinary shares	1.76	07/02/2012	20,000		(20,000)		-
	0.90	14/01/2013	15,000				15,000
	0.10	29/07/2015	62,500				62,500
	Nil	22/02/2018	80,000				80,000
	Nil	26/06/2020	74,000				74,000
	Nil	16/04/2021	3,031				3,031
	Nil	27/09/2021	25,000				25,000
	Nil	02/03/2022		2,165			2,165
							261,696
Employees							
Ordinary shares	0.90	14/01/2013	22,975				22,975
	0.10	11/02/2015	40,584				40,584
	0.10	29/07/2015	78,125				78,125
	0.10	21/11/2015	25,258				25,528
	0.10	27/05/2016	6,480				6,480
	0.10	03/05/2017	7,500		(7,500)		-
	Nil	22/02/2018	190,000		(110,000)		80,000
	Nil	27/04/2020	106,525			(7,397)	99,128
	Nil	06/05/2020	24,000				24,000
	Nil	19/05/2020	219,000				219,000
	Nil	22/03/2021	50,707			(3,000)	47,707
	Nil	21/09/2021	289,000			(40,000)	249,000
	Nil	02/03/2022		57,513		(3,735)	53,778
							946,035
Total			1,548,501	64,511	(217,500)	(54,132)	1,341,380

Approved by the Board and signed on its behalf by:

M F McGoun
Non-Executive Director
13 May 2023

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.



Directors' Report

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2022.

Instem plc is a public limited company, incorporated and domiciled in England, and quoted on AIM.

PRINCIPAL ACTIVITIES

Instem is a leading supplier of IT applications to the life sciences 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.

REVIEW OF THE BUSINESS

A detailed review of the development and performance of the Group's business during the year and its position at the end of the year is set out in the Chairman's Statement and the Strategic Report on pages 8 to 27.

STRATEGIC REPORT

The Group has chosen, in accordance with Companies Act 2006, section 414C (11), to set out in the Group's strategic report on pages 10 to 27 information required to be contained in the Directors' Report by Large and Medium-sized Companies and Groups' (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the Directors' Report.

BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Group's response to the requirement of the business relationship with suppliers, customers and others is included within the Section 172 Statement on page 18 to 20.

DIRECTORS' RESPONSIBILITY UNDER SECTION 172

The Group's response to the requirements of section

172 of the Companies Act 2006 is included within the Strategic Report.

DIRECTORS' RESPONSIBILITY UNDER GREEN HOUSE GAS EMISSIONS AND ENERGY CONSUMPTION

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, we report on GHG emissions as part of the strategic report on page 13 to 15. As such, this year the Group required to measures and reports on energy and carbon data across its UK business, providing data to assess its overall environmental impact for Scope 1 and 2.

In 2021 the Group reviewed the requirements of the Environmental Reporting guidelines. For each Company in the Group that qualifies as large their total energy consumption was below 40MWh and therefore the Group and Company was not required to prepare an Energy and Carbon Report. In 2022 the Group met the regulatory threshold and was therefore required to report.

FUTURE DEVELOPMENTS

The directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. Investment in business growth initiatives will also allow the business to move into new product and market areas. The combination of organic growth along with strategic acquisitions will support the expected growth as outlined in the Chairman's Statement and the Strategic Report.

EVENTS AFTER THE REPORTING PERIOD

The events occurred after the balance sheet date were disclosed in accordance with IAS 10, 'Events after the reporting period'. Details are provided in note 33 to the Consolidated Financial Statements.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Group continues its development programme of software for the global pharmaceutical market including the research and development of new products and enhancement to existing products. The

DIRECTORS' REPORT (CONTINUED)

directors consider the investment in research and development to be fundamental to the success of the business in the future.

DIVIDENDS

The directors do not recommend the payment of a dividend (2021: no dividend payment was recommended).

DIRECTORS

The following directors held office during the year:

D Gare

M F McGoun

D M Sherwin

R Bandali

P J Reason

N J Goldsmith

Details of the directors' service contracts and their respective notice terms are detailed in the Directors' Remuneration report on pages 34 to 35.

DIRECTORS AND THEIR INTERESTS

The interests of the directors who held office at 31 December 2022 (2021: as at 31 December 2021) were as follows:

	2022 No. of Shares	2021 No. of Shares
DG 2008 Discretionary Settlement	538,427	538,427
D M Sherwin	750,000	750,000
P J Reason	770,714	770,714
N J Goldsmith	10,000	10,000

Directors' interests in share options are detailed in the Remuneration report on pages 34 to 35.

POLITICAL DONATIONS

The Group made no political donations in 2022 or 2021.

FINANCIAL INSTRUMENTS

The Group's objectives and policies on financial instruments are set out in note 21 to the financial statements.

INDEMNITY OF OFFICERS AND DIRECTORS

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Group may and has indemnified all directors and other officers against liability incurred in the execution or discharge of their duties or the exercise of their powers, including but not limited to any liability for the costs of any legal proceedings. The Group has purchased and maintains appropriate insurance cover against legal action brought against directors or officers.

ANNUAL GENERAL MEETING

The Annual General Meeting ('AGM') of the Company will be held on 27 June 2023. The resolutions to be proposed at the AGM, together with explanatory notes, appear in a separate notice of AGM which is sent to all shareholders. A proxy card for registered shareholders is distributed along with the notice.

CORPORATE GOVERNANCE

The company's statement on corporate governance can be found in the corporate governance report of these financial statements on page 30.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITOR

During the year PKF Littlejohn LLP were appointed as auditor. Pursuant to s489 of the Companies Act 2006, a resolution to re-appoint PKF Littlejohn LLP as auditor will be put to the members at the forthcoming Annual General Meeting.

On behalf of the Board

P J Reason

Director

13 May 2023

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Strategic Report and Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with UK-adopted international accounting standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INSTEM PLC

OPINION

We have audited the financial statements of Instem Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows and the Consolidated and Parent Company Statements of Changes in Equity, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's cash flow forecasts for the going concern period being twelve months from the date of signing the financial statements;
- Ensuring the mathematical accuracy of the cash flow forecasts;
- Comparing actual results for the year to forecasts to assess the forecasting ability and accuracy of management;
- Holding discussions with management to understand the cash flow forecasts including the key inputs used and sources of these inputs;
- Challenging management on the appropriateness of key assumptions and judgements used;
- Identifying events subsequent to the year-end, which would be expected to impact the Group and Parent Company and hence the directors' assessment of going concern, and challenging management thereon to ensure that they had been factored into managements and the directors' assessment; and
- Considering the inherent risks to the business model and performing an analysis of how those risks might affect the financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

OUR APPLICATION OF MATERIALITY

	Group financial statements	Parent Company financial statements
Materiality for the financial statements as a whole	£442,000	£302,000
Basis of materiality	c. 0.75% of turnover	c. 0.5% of net assets
Rationale Benchmark	We considered revenue to be the most relevant performance indicator of the Group as it is a significant driver of profit or loss for the year.	The Parent Company operates primarily as a holding company which holds the main debt facility for the Group and as such, we consider net assets as the key metric.
Rationale Percentage	The percentage applied to the benchmark has been selected to bring into scope all significant classes of transactions, account balances and disclosures relevant for the shareholders, and also to ensure that matters that would have a significant impact on the results were appropriately considered.	
Performance materiality – 70%	£265,000	£181,000
	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> • the number and quantum of identified misstatements identified by the predecessor auditors; • routine transactions are not complex • the consistency in the level of judgement required in key accounting estimates; • the stability in key management personnel; and • the level of centralisation in the Group's financial reporting controls and processes. 	

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes.

For each significant component in the scope of our audit, we allocated a materiality based on the maximum aggregate component materiality. The range of materiality allocated across components was between £186,000 and £207,000. Group materiality has been used for material non-significant components.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £22,100 as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

OUR APPROACH TO THE AUDIT

In designing our audit, we determined materiality, as above, and assessed the risk of material misstatement in the financial statements. We looked at areas involving significant accounting estimates and judgement by the directors and considered future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

The Group had 27 subsidiaries as at the reporting date. A full scope audit was performed on the complete financial information of four components (including Instem Plc) which were assessed as material and significant. 15 components were considered material but not significant to which we performed audits of material balances using a materiality that is less than the materiality determined for the Group financial statements. For the remaining components not considered material, we performed a limited scope analytical review together with substantive testing, as appropriate, on Group audit risk areas applicable to those components based on their relative size, risks in the business and our knowledge of the entity appropriate to respond to the risk of material misstatement.

All component audit was performed in London, conducted by PKF Littlejohn LLP using a team with specific experience of auditing technology companies and publicly listed entities.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF INSTEM PLC (CONTINUED)

KEY AUDIT MATTER

Revenue recognition

Note 2 – 2022: £58.9 million (2021: £46 million)

As required by the auditing standards, we identified fraud risk related to the Group's revenue recognition for all revenue streams including:

- license and hardware
- SaaS and maintenance
- Professional, technology and consulting services

Whilst there are limited judgements relating to license and SaaS and maintenance revenue, the external focus on the revenue increases the risk of fraudulent premature revenue recognition.

There is a risk in ascertaining the correct revenue to be recognised for the period with reference to IFRS 15 given management's judgements in relation to the percentage of completion and in turn the revenue recognised. Inappropriate determination of when revenue recognition commences and terminates for the longer contracts may result in a material misstatement.

HOW OUR SCOPE ADDRESSED THIS MATTER

Substantive audit procedures performed in respect of revenue recognition are detailed below:

We obtained an understanding of the information system and design and implementation of controls relevant to each material income stream through a detailed systems description and walkthrough process;

License and Hardware (non-service revenue)

We assessed on a sample basis whether revenue has been recorded in the correct period, that performance obligations have been satisfied in the correct period by ensuring delivery was before year end and the correct transaction price has been used in the revenue recognition calculation by agreeing this to the contract/purchase order/sales invoice.

SaaS and Maintenance (service revenue)

We assessed on a sample basis whether revenue has been recorded in the correct period, performance obligations has been satisfied in the correct period and the appropriate transaction price has been used in the revenue recognition calculation by agreeing this to the contract term and price to the source documentation.

We challenged managements' percentage of completion and recalculated the contract assets and deferred income as at the balance sheet date to confirm that revenue has been recognised in the correct accounting period.

Professional, Technology and Consulting services.

We assessed on a sample basis whether revenue has been recorded in the correct period, performance obligations has been satisfied in the correct period and the correct transaction price has been used in the revenue recognition calculation by agreeing this to the contract term and price to the source documentation.

We assessed and challenged the key terms of the purchase orders and contracts; as well as the percentage of completion to consider Group's assessment of the revenue recognition consideration in line with the requirement of IFRS 15. We substantively tested these projects in order to assess, in detail, the terms and period of the service contract, time allocated to the project (accuracy of costs) and substantiation provided by the relevant Project Manager regarding the allocated percentage completion figure of the project resulting in revenue recognition.

We challenged management's percentage of completion and recalculated the accrued income and deferred income as at balance sheet date to confirm that revenue has been recognised in the correct accounting period.

We critically assessed the adequacy of the financial statements disclosure in relation to revenue recognition and assessed that the accounting policies are in line with the requirements of IFRS 15.

KEY AUDIT MATTER

Internally generated intangible assets - Development costs

Note 12 Software – 2022: £7.6 million (2021: £5.6 million)

There are significant judgements involved in assessing whether expenses related to the Group's development of new technology meets the capitalisation criteria of IAS38, in particular, the point at which technical and economic feasibility are demonstrated. During the year the Group capitalised costs related to projects where probable future economic benefits is achieved via customer renewals which judgemental.

Where the capitalisation criteria as set out in IAS38 are met, the Group makes judgements in estimating the amount of time employees spent on development activities to determine the appropriate amount to capitalise.

We identified a risk of misstatement related to both the judgement as to whether the cost associated to a project can be capitalised and the estimation of employees' capitalisation time.

As such, the determination of the capitalised development costs is subject to a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Goodwill other acquired intangible assets impairment

Note 12 Intangible assets – 2022: £58.3 million (2021: £58.3 million)

The estimated value in use/fair value less cost to sell for each of the identified CGU's is subjective due to the inherent uncertainty and complexity involved in forecasting and discounting future cash flows of the CGU's. There are also judgements involved in the Group's forecasts of the costs to be excluded from the value in use estimates as well as other assumptions such as the discount rate, revenue retention rates, revenue multiple rates (for the fair value less cost to sell method).

As a result, the carrying value of goodwill and other intangibles is subject to a high degree of estimation uncertainty, with a potential range of reasonable outcome greater than our materiality for the financial statements as a whole.

HOW OUR SCOPE ADDRESSED THIS MATTER

Our work included but was not limited to:

For a sample of projects newly capitalised in the year, we inspected internal documentation and external assessment documentation from project managers to evaluate whether the technological feasibility was demonstrated at the reporting date. We evaluated the Group's assessment that economic feasibility had been demonstrated by assessing the revenue by products.

We reviewed employees' contracts on a sample basis to evaluate whether the work of these individuals was directly linked to the development of the project. We considered the different employees involved in the development of the applications and the time spent developing the application.

We challenged the assumptions on the rate used to capitalise the internal employee costs based on the evidence provided, our knowledge and experience of the businesses and the industry they operate in.

We recalculated the capitalised costs using the applicable rate for the employees identified.

We considered the adequacy of the financial statements disclosure in respect of the significant estimates and judgements used in the determination of whether the capitalisation criteria have been met and the degree of estimation uncertainty in determining the amount to be capitalised.

Our work included but was not limited to:

We assessed the appropriateness of methods used to calculate the recoverable amounts.

We critically assessed the forecasted amounts in comparison to post period actuals to assess management's accuracy with respect to forecasting. In addition, we critically assessed other assumptions used such as the discount rate, growth rate, overhead allocation based on our understanding of the business, knowledge attained throughout the audit and experience of the businesses and the industry they operate in.

With the assistance from our valuations specialist, critically assessed the discount rates and developed our own estimate of range of possible discount rates for each of the CGU, based on external market data and our understanding of the businesses, and compared this to the discount rates determined by the Group.

We critically assessed management's sensitivity analysis using market data and industry outlooks while summarising the quantitative impact on the year-end goodwill balance.

We assessed the appropriateness of the possible outcomes using the assumptions noted above, both individually and in aggregate, and assessed whether the disclosures reflect the risks inherent in the recoverable amounts of the identified CGUs.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INSTEM PLC (CONTINUED)

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the Group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group and parent company financial statements, the directors are responsible for assessing the Group and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design

procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the Group and Parent Company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, application of cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations relevant to the Group and Parent Company in this regard to be those arising from the:
 - Companies Act 2006;
 - UK-adopted international accounting standards;
 - Quoted Companies Alliance Code;
 - Local laws and regulations in the jurisdictions of the subsidiary entities;
 - AIM Rules;
 - Health and Safety Laws; and
 - Anti-bribery and anti-money laundering regulations.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the Group and Parent Company with those laws and regulations. These procedures included, but were not limited to:
 - Holding discussions with management and the audit committee and considering any known or suspected instances of non-compliance with laws and regulations or fraud;
 - Reviewing board meeting minutes;
 - Reviewing Regulatory News Service (RNS) announcements;
 - Reviewing legal and regulatory correspondence.
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the potential for management bias was identified in relation to the revenue recognition, valuation of goodwill and investments, capitalised development costs as well as the valuation of the defined benefit obligations, including the key actuarial assumptions applied. We addressed this by challenging the assumptions

and judgements made by management when auditing that significant accounting estimate and ensuring that there were adequate disclosures included in the respective notes including the disclosures within critical accounting estimates.

- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Hutson (Senior Statutory Auditor)

For and on behalf of PKF Littlejohn LLP

Statutory Auditor

13 May 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
REVENUE	2	58,880	46,017
Employee benefits expense	3	(34,437)	(26,918)
Other expenses	3	(13,776)	(10,491)
Net impairment gain/(loss) on financial assets	16	196	(358)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING ITEMS (ADJUSTED EBITDA)		10,863	8,250
Depreciation	14	(340)	(312)
Amortisation of intangibles arising on acquisitions	12	(1,953)	(1,563)
Amortisation of internally generated intangibles	12	(1,096)	(851)
Depreciation of right of use assets	9	(967)	(945)
Impairment of goodwill	12	(107)	-
OPERATING PROFIT BEFORE NON-RECURRING ITEMS		6,400	4,579
Non-recurring costs	4	(1,208)	(1,286)
Non-recurring income	4	401	805
OPERATING PROFIT AFTER NON-RECURRING ITEMS		5,593	4,098
Finance income	5	1,023	30
Finance costs	6	(1,143)	(1,144)
PROFIT BEFORE TAXATION		5,473	2,984
Taxation	11	(776)	(1,306)
PROFIT FOR THE YEAR		4,697	1,678
OTHER COMPREHENSIVE (EXPENSE)/ INCOME			
Items that will not be reclassified to profit and loss account:			
Actuarial (loss)/gain on net defined benefit liability	25	(561)	1,375
Deferred tax on actuarial gain/(loss)		140	(140)
		(421)	1,235
Items that may be reclassified to profit and loss account:			
Exchange differences on translating foreign operations		(1,596)	(294)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(2,017)	941
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,680	2,619
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		4,697	1,678
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		2,680	2,619
Earnings per share			
Basic	28	20.8	7.8
Diluted	28	19.8	7.4

The notes on pages 68 to 116 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

Company Registration No. 07148099

	Note	2022 £000	2021 £000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	58,341	58,311
Property, plant and equipment	14	768	592
Right of use assets	9	1,120	2,077
Finance lease receivables	9	42	85
TOTAL NON-CURRENT ASSETS		60,271	61,065
CURRENT ASSETS			
Inventories	15	76	64
Trade and other receivables	16	18,345	14,852
Finance lease receivables	9	53	44
Tax receivable		-	130
Cash and cash equivalents	17	13,964	15,021
TOTAL CURRENT ASSETS		32,438	30,111
TOTAL ASSETS		92,709	91,176
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	5,327	5,723
Deferred income	19	22,745	18,935
Tax payable	23	251	-
Financial liabilities	20	5,765	6,612
Lease liabilities	9	814	1,077
TOTAL CURRENT LIABILITIES		34,902	32,347
NON-CURRENT LIABILITIES			
Financial liabilities	20	-	4,728
Pension obligations	25	2,013	2,014
Provision for liabilities	26	45	291
Lease liabilities	9	491	1,248
Deferred tax liabilities	24	1,901	3,247
TOTAL NON-CURRENT LIABILITIES		4,450	11,528
TOTAL LIABILITIES		39,352	43,875
EQUITY			
Share capital	27	2,270	2,219
Share premium	29	28,224	28,191
Merger reserve	29	14,013	12,104
Share based payment reserve	29	3,570	2,294
Translation reserve	29	(1,798)	(202)
Retained earnings	29	7,078	2,695
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		53,357	47,301
TOTAL EQUITY AND LIABILITIES		92,709	91,176

The financial statements on pages 46 to 116 were approved by the board of directors and authorised for issue on 13 May 2023 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2022

Company Registration No. 07148099

	Note	2022 £000	2021 £000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		7	17
Investments	13	63,724	47,188
TOTAL NON-CURRENT ASSETS		63,731	47,205
CURRENT ASSETS			
Trade and other receivables	16	25,470	20,322
Cash and cash equivalents	17	22	3,294
TOTAL CURRENT ASSETS		25,492	23,616
TOTAL ASSETS		89,223	70,821
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	27,894	16,632
Financial liabilities	20	965	2,122
TOTAL CURRENT LIABILITIES		28,859	18,754
NON-CURRENT LIABILITIES			
Financial liabilities	20	-	757
TOTAL NON-CURRENT LIABILITIES		-	757
TOTAL LIABILITIES		28,859	19,511
EQUITY			
Share capital	27	2,270	2,219
Share premium	29	28,224	28,191
Merger reserve	29	25,647	23,738
Share based payment reserve	29	3,021	1,765
Retained earnings	29	1,202	(4,603)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		60,364	51,310
TOTAL EQUITY AND LIABILITIES		89,223	70,821

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own statement of comprehensive income and related notes. The Company's gain for the year was £5,698,000 (2021: loss of £1,386,000).

The notes on pages 68 to 116 form part of these financial statements.

The financial statements on pages 46 to 116 were approved by the board of directors and authorised for issue on 13 May 2023 and are signed on its behalf by:

P J Reason
Director

N J Goldsmith
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 £000	2021 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		5,473	2,984
Adjustments for:			
Depreciation	14	340	312
Amortisation of intangibles	12	3,049	2,414
Depreciation of right of use assets	9	967	945
Share based payment charge	3	1,377	1,061
Contributions to defined benefit pension scheme	25	(598)	(530)
Government support loan forgiveness	4	-	(805)
Finance income	5	(1,023)	(30)
Finance costs	6	1,143	1,144
Impairment on goodwill	12	107	-
Loss on disposal of fixed assets		(4)	3
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL		10,831	7,498
Movements in working capital:			
Increase in inventories		(12)	(14)
Increase in trade and other receivables		(2,866)	(1,573)
Increase in trade, other payables and deferred income		2,185	4,432
Decrease in provision	26	(281)	-
NET CASH GENERATED FROM OPERATIONS		9,857	10,343
Finance income	5	91	6
Finance costs	6	(266)	(276)
Income taxes		(1,810)	(873)
NET CASH GENERATED FROM OPERATING ACTIVITIES		7,872	9,200
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalisation of development costs and software	12	(3,036)	(2,238)
Purchase of property, plant and equipment	14	(478)	(144)
Payment of deferred consideration		-	(277)
Purchase of subsidiary undertakings (net of cash acquired)		-	(14,840)
NET CASH USED IN INVESTING ACTIVITIES		(3,514)	(17,499)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		36	22
Repayment of lease liabilities	22	(1,096)	(963)
Receipts from sublease of asset	9	53	40
Repayment of former PDS's shareholder loan	22	-	(2,387)
Payment of deferred consideration		(3,891)	-
Payment of contingent consideration		(1,463)	-
NET CASH GENERATED (USED IN)/FROM FINANCING ACTIVITIES		(6,361)	(3,288)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,003)	(11,587)
Cash and cash equivalents at start of year		15,021	26,724
Effects of exchange rate changes on the balance of cash held in foreign currencies		946	(116)
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	13,964	15,021

The notes on pages 68 to 116 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022	2021
		£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before taxation		5,698	(1,386)
Adjustments for:			
Amortisation of intangibles		10	10
Finance income		(5)	(21)
Finance cost		1,052	462
Impairment of goodwill		1,356	-
Dividend income		(8,456)	-
CASH FLOWS USED IN OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL		(345)	(935)
Movements in working capital:			
Increase in trade and other receivables		(14,442)	(9,561)
Increase in trade and other payables		14,444	8,164
NET CASH GENERATED FROM OPERATIONS		(343)	(2,332)
Finance income		-	21
Finance costs		(122)	(86)
NET CASH GENERATED USED IN OPERATING ACTIVITIES		(465)	(2,397)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of subsidiary undertakings (net of cash acquired)		-	(14,590)
NET CASH USED IN INVESTING ACTIVITIES		-	(14,590)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		36	22
Payment of deferred consideration		(1,314)	-
Payment of contingent consideration		(1,000)	-
NET CASH GENERATED FROM FINANCING ACTIVITIES		(2,278)	22
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,743)	(16,965)
Cash and cash equivalents at start of year		3,294	20,269
Effects of exchange rate changes on the balance of cash held in foreign currencies		(529)	(10)
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	22	3,294

The notes on pages 68 to 116 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Note	Share capital £000	Share premium £000	Merger reserve £000	Share based payment reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2021		2,048	28,172	2,432	930	92	(438)	33,236
Profit for the year		-	-	-	-	-	1,678	1,678
Other comprehensive (expense)/income for the year		-	-	-	-	(294)	1,235	941
Total comprehensive expense		-	-	-	-	(294)	2,913	2,619
Shares issued	27	171	19	9,672	-	-	-	9,862
Share based payment	10	-	-	-	1,061	-	-	1,061
Deferred tax on share options		-	-	-	528	-	-	528
Nil cost option charge		-	-	-	(5)	-	-	(5)
Reserve transfer on lapse of share options		-	-	-	(25)	-	25	-
Reserve transfer on exercise of share options		-	-	-	(195)	-	195	-
Balance as at 31 December 2021		2,219	28,191	12,104	2,294	(202)	2,695	47,301
Profit for the year		-	-	-	-	-	4,697	4,697
Other comprehensive (expense) for the year		-	-	-	-	(1,596)	(421)	(2,017)
Total comprehensive (expense)/income		-	-	-	-	(1,596)	4,276	2,680
Shares issued	27	51	33	1,909	-	-	-	1,993
Share based payment	10	-	-	-	1,377	-	-	1,377
Deferred tax on share options		-	-	-	20	-	-	20
Nil cost option charge		-	-	-	(14)	-	-	(14)
Reserve transfer on lapse of share options		-	-	-	-	-	-	-
Reserve transfer on exercise of share options		-	-	-	(107)	-	107	-
Balance as at 31 December 2022		2,270	28,224	14,013	3,570	(1,798)	7,078	53,357

The notes on pages 68 to 116 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Note	Share capital £000	Share premium £000	Merger reserve £000	Share based payment reserve issued £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2021		2,048	28,172	14,066	929	(3,437)	41,778
Loss for the year		-	-	-	-	(1,386)	(1,386)
Shares issued	27	171	19	9,672	-	-	9,862
Share based payment	10	-	-	-	1,061	-	1,061
Nil cost option charge		-	-	-	(5)	-	(5)
Reserve transfer on lapse of share options		-	-	-	(25)	25	-
Reserve transfer on exercise of share options		-	-	-	(195)	195	-
Balance as at 31 December 2021		2,219	28,191	23,738	1,765	(4,603)	51,310
Profit for the year		-	-	-	-	5,698	5,698
Shares issued	27	51	33	1,909	-	-	1,993
Share based payment	10	-	-	-	1,377	-	1,377
Nil cost option charge		-	-	-	(14)	-	(14)
Reserve transfer on lapse of share options		-	-	-	-	-	-
Reserve transfer on exercise of share options		-	-	-	(107)	107	-
Balance as at 31 December 2022		2,270	28,224	25,647	3,021	1,202	60,364

The notes on pages 68 to 116 form part of these financial statements.

GENERAL INFORMATION

The principal activity and nature of operations of the Group is the provision of IT solutions to the life sciences market. Instem's solutions for data collection, management and analysis are used by customers worldwide to meet the needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products. Instem plc is a public limited company, listed on AIM, and incorporated in England and Wales under the Companies Act 2006 and domiciled in England and Wales. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD.

STATEMENT OF COMPLIANCE

The financial statements of the Group and Company have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and the AIM listed rules.

BASIS OF PREPARATION

The Group's accounting reference date is 31 December, amounts are rounded to the nearest thousand unless otherwise stated.

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis, except for the following:

- defined benefit pension plans – plan assets measured at fair value
- contingent consideration liability – measured at fair value or revalued amount

Refer to the Going Concern note for further details.

The Consolidated financial statements and related notes represent results from continuing operations, there being no discontinued operations in the years presented.

The Group has taken advantage of the audit exemption for eleven of its subsidiaries, Instem Life Science Systems Limited (company number 04339129), Instem Scientific Solutions Limited (company number 03598020), Instem Clinical Holdings Limited (company number 05840032), Instem Clinical Limited (company number 06959053), Instem LSS (North America) Limited (company number 02126697), Instem LSS Limited (company number 03548215), Instem Scientific Limited (company number 03861669),

Perceptive Instruments Limited (company number 02498351), Samarind Limited (company number 02105894), The Edge Software Consultancy Limited (company number 05400315), D-wise Technologies UK Limited (company number 07352898) by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these subsidiaries which have taken advantage of the exemption from audit.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these consolidated financial statements.

ADOPTION OF IFRS

The Group and Company financial statements have been prepared in accordance with UK-adopted international accounting standards and International Financial Reporting Interpretations Committee (IFRICs) effective as at 31 December 2022. The Group and Company have chosen not to adopt any amendments or revised standards early.

IFRSs ADOPTED IN THE YEAR

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB which are all effective from 1 January 2022.

The most significant of these are as follows:

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements (2018-2020 Cycle):
 - Subsidiary as a First-time Adopter (Amendments to IFRS 1)
 - Fees in the '10 per cent' Test for Derecognition of Liabilities (Amendments to IFRS 9)
 - Lease Incentives (Amendments to IFRS 16)
 - Taxation in Fair Value Measurements (Amendments to IAS 41).

Those standards, amendments to standards, and interpretations have been adopted and did not have a material impact on the accounting policies of the Group.

IFRSs ISSUED BUT NOT YET EFFECTIVE

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2023:

- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 17 'Insurance Contracts' (Amendments to IFRS 17 and IFRS 4)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Definition of Accounting Estimates (Amendments to IAS 8)

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the parent company, Instem plc, and its subsidiary undertakings made up to 31 December 2022 and 31 December 2021.

In preparing the consolidated financial statements, any intra-group balances, unrealised gains and losses or income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

Subsidiaries

Subsidiaries are entities in which the Group has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group up until the date that control ceases.

All subsidiary companies within the Group have a financial year end date of 31 December, with the exception of Instem India Pvt Limited which has

a financial year end date of 31 March, in line with Government of India regulations.

BUSINESS COMBINATIONS

The Group applies the acquisition method in accounting for business combinations. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income taxes'.

Consideration may consist of deferred consideration and contingent consideration. Deferred consideration is not based on any performance related conditions and is payable on an agreed future date. Contingent consideration is based on certain performance related conditions and payable on an agreed future date, if those conditions are met.

Deferred consideration and contingent consideration is measured at their acquisition-date fair value and are taken into account in the determination of goodwill. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as a liability is re-measured at subsequent reporting dates with the corresponding gain or loss being recognised in the statement of comprehensive income.

GOING CONCERN

The financial position of the Group, its cash flows and liquidity position are set out in the primary statements within these financial statements.

Background

The Directors have adopted the going concern basis in preparing these financial statements after careful assessment of identified principal risks and the possible adverse impact on financial performance. The Directors have assessed the financial position and liquidity at the end of the reporting period and for the forecast period up to 31 December 2024, including sensitivity analysis. The going concern period covers the 12 months from the date of signing the financial statements. The process and key judgments in coming to this conclusion are set out below.

The Group's activities, including the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

Current trading and liquidity

The Group's trading performance for the year ended 31 December 2022 has been strong with Revenues of £58.9m and Adjusted EBITDA of £10.9m. For this measure of earnings, the margin as a percentage of revenue increased in the period to 18.4% compared with 17.9% in 2021. The Group managed to increase its revenue in line with the salary inflation through sales price increases.

The Group signed a new financing arrangement on 8 April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance.

Instem undertook an oversubscribed equity fund raise in July 2020, raising £15.0m net of expenses. The fund raise placed the Group in a strong cash position which helped to accelerate the Group's acquisition strategy with the acquisitions of the Edge, d-Wise and PDS. Even though the Group spent £17.2m initially funding the acquisition of The Edge, d-Wise and PDS in 2021 followed by £5.4m in 2022 on deferred and contingent consideration, the Group has a strong cash position with £14.0m in the bank as of 31 December 2022.

The Group cash generated from operations for the year was £9.9m (2021: £10.3m), a small reduction from prior year primarily due to working capital movement and the settlement of an historical contract dispute. The dispute, which did not affect the ongoing operations of the Group, was settled in October 2022. As previously announced the Group had already created provision of £0.25m in 2017, which was maintained in the 2021

financial statements. In 2022, the Group increased the provision equal to the amount that the legal dispute was settled at €1.48m (£1.3m), towards which its insurer contributed €0.45m (£0.4m) resulting in a net payment due of approx. €1.0m (£0.9m).

The Group acquired the earnings enhancing, cash generative businesses of the Edge, d-Wise, and PDS, which have been steadily integrated within the Group during 2022.

The remaining financial obligations associated with The Edge and d-Wise acquisitions for 2023 are deferred and contingent consideration payments of £3.6m and £2.2m respectively in cash. The contingent consideration provision reflected management's estimate that the entities would achieve their profitability targets and that the full amount of contingent consideration would be paid. This profitability target was confirmed as achieved in the period.

Sensitivity Analysis

The Company has considered two scenarios which are also linked to the company's risks when modelling the forecast results and cash flow. The sensitivity assessment includes the trading performance and cash flows of Centrus, our new solution suite incorporating the acquired ToxHub technology (note 33).

(a) Base Case Scenario

The Group's detailed forecasts and projections, taking account of potential risks and uncertainties in the business, market and liquidity through sensitivity analysis, show that the Group has adequate resources to enable it to continue in operation through the forecast period ending 31 December 2024 from the approval date of these Consolidated Financial Statements. Accordingly, the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements.

The uncertainty as to the future impact on the Group of the current inflation outlook has been considered as part of the sensitivity analysis and as part of Group's adoption of the going concern basis. Thus far we have not observed any material impact on our overall existing business or in the level of new business opportunities that are being presented to us in the markets in which we operate.

The Group has a significant proportion of recurring revenue (circa 59% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Revenue is supported by a largely fixed cost base comprising staff and offices.

(b) Sensitised Scenario

Further stress testing has been carried out to ensure that the Group has sufficient cash resources to continue its operations until at least 31 December 2024. In preparing this analysis the following key risks were included - a 35% loss of new business for the next twelve months and the risk effect of foreign exchange movements, particularly between the USD and GBP. Despite the negative impact of these sensitivities the model demonstrated that the Group remained profitable and cash generative over the going concern period to December 2024.

In a worse case scenario where many of the identified risks occurred, the Group would take remedial action to counter the reduction in profit and cash through a cost cutting and fund-raising exercise that would include staff redundancies and general cost control measures. These further downside scenarios are considered unlikely.

Conclusion and Going Concern Statement

After considering the uncertainties described above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and as a minimum until 31 December 2024. For these reasons, they continue to adopt the going concern basis in preparing this annual report and accounts.

REVENUE RECOGNITION

The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, subscription and support, professional services, technology enabled outsourced services and consultancy services.

At contract inception, an assessment is completed to identify the performance obligations in each contract. Performance obligations in a contract are either goods or services that are distinct or part of a series of goods or services that are substantially the same and have the same pattern of transfer to the customer. Promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied.

At contract inception, the transaction price is determined, being the amount that the Group expects to receive for transferring the promised goods or services. The transaction price is allocated to the performance obligations in the contract based on

their relative standalone selling prices. The Group has determined that the contractually stated price represents the standalone selling price for each performance obligation.

Revenue is recognised when a performance obligation has been satisfied by transferring the promised product or service to the customer.

Software licences

Licence revenue comprises the sale of software licences across the Group and the sale of compound credits by Leadscope and resale of complementary products. The revenue from software licences is recognised when the customer takes possession of the software which is usually when the licence key is provided to the customer. This is because the software is functional at the time the licence transfers to the customer and the Group is not required or expected to undertake activities that significantly affect the utility of the intellectual property by the customer. The revenue from compound credits is recognised at the point in time when the actual credits have been exercised, as the promises in these contracts are a single performance obligation.

Annual support

Customers typically enter into a support contract for a period of twelve months. This contract provides the customer with access to technical support and software upgrades. Customers pay a fixed amount in exchange for the use of a cloud based statistical computing environment, along with access to maintenance and support. The promises in these contracts constitute a single performance obligation, which is satisfied over time as the customer consumes the benefits of the service consistently over the contract term. Revenue in respect of the single performance obligation is recognised evenly over the contract term.

SaaS subscription and support

Customers typically enter into a SaaS contract for a period of twelve months and pay a fixed amount in exchange for the usage of software on a hosted server over a specified period of time along with access to maintenance and support. Initial SaaS contracts may also include some installation or customisation of the software and training for staff. The promises in this contract are considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both

the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Group consistently over the contract term.

Subscription and support

Customers typically enter into a Subscription contract for an agreed period which could be more than twelve months and pay a fixed amount in exchange for the usage of software on a hosted server, computer based version or customer server version (in customer premises) over a specified period of time along with access to maintenance and support. In some cases the initial subscription contracts may also include some installation services.

The promises in these contracts are considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Group consistently over the contract term.

Professional services and technology enabled outsourced services

Customers typically enter into a service contract to provide distinct service work based on clear statements of work. Service work includes, but is not limited to, implementation services, training and outsourced services work relating to SEND, KnowledgeScan and Blur. The promises in this contract are considered to be a single performance obligation given the services are interdependent and the revenue is recognised on a percentage completion basis for fixed price contracts or as services are provided in respect of time and materials contracts. The Group has elected to take the practical expedient to apply this policy to its portfolio of distinct service contracts given the similar characteristics in these types of contracts.

Professional services include the revenue from funded development projects where customers typically enter into a service contract to accelerate product development. Revenue for funded development work

is recognised on a percentage completed basis. The percentage completed is determined with reference to time required to complete the development.

Consultancy services

Customers typically enter into a service contract to provide distinct service work based on clear statements of work which include consulting services for clinical trial applications. The consultancy services are contracted for on either a time and materials or fixed priced basis. Time and materials consultancy is recognised in the period in which it is performed. Fixed price work is recognised on a percentage completion basis of the remaining unbilled milestones. The percentage completed is determined with reference to time incurred to date and time required to complete the development or consultancy.

Bundled contracts

Software licences, professional services, cloud based statistical computing environment, and annual support are often bundled together in a contract.

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, due to a lack of interdependence between performance obligations, promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied. Revenue in respect of this bundled performance obligation is recognised over the period of the contracted obligation on a straight-line basis.

Amounts recoverable on contracts and deferred income

In most cases, customers are invoiced and payment is received in advance of revenue being recognised in the income statement. Amounts recoverable on contracts and deferred income is the difference between amounts invoiced to customers and revenue recognised under the policy described above.

For professional services, technology enabled outsourced services and consultancy services the group will raise an invoice to the customer only if the performance obligation based on the agreement would be met.

Consequently, if the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within amounts recoverable on contracts.

In comparison if customers are invoiced and payment is received in advance of revenue being recognised in the income statement then deferred income is recognised.

Contract fulfilment asset

Contract fulfilment assets are amortised over the expected contract period on a systematic basis representing the pattern in which control of the associated service is transferred to the customer.

Practical exemptions

The Group has taken advantage of the following practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less;
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less; and
- to not disclose information relating to performance obligations for contracts that had an original expected duration of one year or less, or where the right to consideration from a customer is an amount that corresponds directly with the value of the completed performance obligations.

ADJUSTED EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING ITEMS (EBITDA)

Adjusted EBITDA is profit/(loss) arising from the Group's normal trading activities stated before interest, tax, depreciation, amortisation and non-recurring items.

SEGMENTAL DISCLOSURES

During the Period, the business was divided into four operating segments to better manage and report revenues; Study Management, Regulatory Solutions, *In Silico* Solutions and Clinical Trial Acceleration (CTA), see note 1. The fourth segment was established following the acquisition of d-Wise in April 2021.

There has been an internal project to enhance the quality of management information following the implementation of a new finance system in 2019. During 2020 this system enabled more centrally recorded costs to be allocated to the individual segments and that process was further developed in recent years.

The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, information technology, customer support, people & culture and finance & administration. The CTA segment already bears the majority of its costs directly and as such reports a lower

direct contribution margin to central overheads than the other three segments. However, during 2022 CTA has benefited from synergies resulting in an overall improvement on the direct contribution margin.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the reporting date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions, or otherwise at the exchange rate ruling at the date of each transaction.

Exchange differences arising from the translation of foreign operations are taken directly to the translation reserve. They are released into profit or loss upon disposal of the foreign operation.

The consolidated financial statements are presented in Sterling (GBP), which is also the functional currency of the Parent Company. The functional currencies of each of the companies in the Group are as follows:

Instem plc	Sterling (GBP)
Instem Life Science Systems Limited	Sterling (GBP)
Instem LSS Limited	Sterling (GBP)
Instem LSS (North America) Limited	US Dollars (USD)
Instem LSS Asia Limited	Hong Kong Dollars (HKD)
Instem Information Systems (Shanghai) Limited	Renminbi (RMB)
Instem Scientific Limited	Sterling (GBP)
Instem Scientific Solutions Limited	Sterling (GBP)
Instem Scientific Inc	US Dollars (USD)
Instem India Pvt Limited	Indian Rupees (INR)
Instem Clinical Holdings Limited	Sterling (GBP)
Instem Clinical Limited	Sterling (GBP)
Instem Clinical Inc	US Dollars (USD)
Perceptive Instruments Limited	Sterling (GBP)
Instem Japan K.K	Japanese Yen (JPY)
Samarind Limited	Sterling (GBP)
Notocord Systems S.A.	Euro (EUR)
Notocord Inc.	US Dollars (USD)
Leadscope Inc.	US Dollars (USD)
The Edge Software Consultancy Limited	Sterling (GBP)
D-wise Technologies UK Limited	Sterling (GBP)
Instem Inc.	US Dollars (USD)
D-wise Technologies Inc.	US Dollars (USD)
D-wise Technologies Inc Morrisville succursale de Geneve Branch	Swiss Franc (CHF)
D-wise Technologies Deutschland GmbH	Euro (EUR)
Pathology Data Systems AG	Swiss Franc (CHF)
Pathology Data Systems Inc.	US Dollars (USD)
Pathology Data Systems Limited Japan Branch	Japanese Yen (JPY)

The exchange rates used to translate the financial statements into Sterling (GBP) are as follows:

	US Dollar (USD)	Euro (EUR)	Swiss Franc (CHF)	Chinese Renminbi (RMB)	Indian Rupee (INR)	Japanese Yen (JPY)
Average rate for year ended 31 December 2021	1.3744	1.1583	1.2570	8.8570	101.6019	150.6447
Closing rate at 31 December 2021	1.3497	1.1918	1.2315	8.5684	100.2861	155.3695
Average rate for year ended 31 December 2022	1.2378	1.1743	1.1765	8.3038	97.1622	161.2528
Closing rate at 31 December 2022	1.2103	1.1273	1.1187	8.336	100.1024	158.3699

NON RECURRING ITEMS

Non recurring items are items of income and expenses which are material and, due to their nature or size, are presented separately on the face of the statement of comprehensive income in order to provide a better understanding of the Group's financial performance.

Those items are infrequent or abnormal and are not part of the ongoing operations of the business.

Non recurring items may include restructuring costs, legal fees, M&A costs and other unusual gains or losses.

GRANT

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with the appropriate conditions.

FINANCE INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Finance income includes exchange gains (including exchange gains on the translation of intra-group funding balances).

FINANCE COSTS

Net finance costs include interest payable, arrangement and service fees, exchange losses (including exchange losses on the translation of inter-company funding balances), unwinding discount from future deferred consideration payments, finance charges on leases and net interest on pension scheme liabilities. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

SHARE-BASED PAYMENT TRANSACTIONS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair values are measured by use of the Binomial, Monte Carlo or Black Scholes models. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date. Market vesting conditions are linked to the Group's share price performance. Non-market vesting conditions are linked to trading performance and service over defined time periods.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled or settled. Where the terms of the options are modified and the modification increases the fair value or number of equity instruments granted, measured immediately before and after the modification, the incremental fair value is spread over the remaining vesting period.

Options over the Company's shares granted to employees of the subsidiaries are recognised as a capital contribution in the subsidiaries and added to the cost of investment within Instem plc.

TAXATION

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the statement of comprehensive income, because it excludes items of income or expenditure which are not

taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another year. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Income tax credits for research and development activities are recognised on a cash basis or when their receipt is reasonably certain.

Deferred tax is accounted for on the basis of temporary differences arising from the differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available, against which temporary differences can be utilised. Deferred tax is recognised on income or expenses from subsidiaries that will be assessed, or allow for tax in future periods except where the Group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

INTANGIBLE ASSETS

Intangible assets purchased separately from a business are capitalised at their cost.

Intellectual Property, Customer Relationships, Brand Names and Patents

The Group makes an assessment of the fair value of intangible assets arising on acquisitions. These include Intellectual Property, Customer Relationships, Brand Names and Patents. An intangible asset will be recognised as long as the asset is identifiable and its fair value can be measured reliably. An intangible asset is identifiable if it is separable or if it was obtained through contractual or legal rights. Amortisation is provided on the fair value of the asset and is calculated on a straight-line basis over its useful life. The useful life for Intellectual Property, Customer Relationships, Brand Names and Patents is between five and fifteen years. Amortisation is recognised within the statement

of comprehensive income. All intangible assets except Goodwill are amortised and are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Goodwill

Goodwill on acquisitions, being the excess of the fair value of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired, is capitalised and tested for impairment on an annual basis. Goodwill is carried at cost less accumulated impairment losses.

Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to cash generating units of Instem plc, which represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Computer Software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its use, these costs are amortised over the estimated useful life of the software.

Internally generated intangible assets

Expenditure on research activities is recognised in the statement of comprehensive income as incurred.

Expenditure arising from the Group's development of software for sale to third parties is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Capitalised development costs are those which are directly attributable to the development activity and include employee costs, overheads and direct third party costs.

Where the criteria have not been met, development

expenditure is recognised in profit or loss in the period in which it is incurred.

Internally-generated intangible assets are amortised, once the product is available for use, on a straight-line basis over their useful lives (five to eight years) and are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and provision for impairments.

Depreciation is provided on all assets so as to write off the cost less estimated residual value on a straight-line basis as follows:

- Short leasehold property - Over term of lease
- IT hardware and software - 25% - 33% per annum

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

LEASING

The Group as a lessee

The Group makes use of leasing arrangements principally for the provision of office space and IT equipment. The Group does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses.

The Group assesses whether a contract is a lease or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration. Some lease contracts contain both lease and non-lease components. These non-lease components are usually

associated with facilities management services at offices. The Group has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component.

Measurement and recognition of leases as a lessee

All leases are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, discounted using the Group's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Group could have to pay to borrow the same amount over a similar term and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Group.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) and variable payments based on an index or rate.

In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;

- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate at the date of re-assessment or effective date of a lease modification is used. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. In both cases an equivalent adjustment is made to the carrying value of the right of use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiation results in an increase in the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right of use asset being adjusted by the same amount

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right of use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right of use asset is adjusted by the same amount.

In determining the lease term, the Group assesses whether it is reasonably certain to exercise, or not to exercise, options to extend or terminate a lease. This assessment is made at the start of the lease and is re-assessed if significant events or changes in circumstances occur that are within the lessee's control.

The Group has elected to account for short-term leases assets using practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Group applies judgement in determining whether individual leases can be accounted for as a portfolio. The judgements include an assessment of whether the leases share similar characteristics and whether the financial statements would be materially different if each lease was accounted for individually. The Group leases a number of properties in the jurisdictions from which it operates. In these jurisdictions the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes effect. The Group also leases one vehicle. Leases of vehicle comprise only fixed payments over the lease terms.

The Group as a lessor

The Group acts as a lessor in relation to a sublease of part of one of the properties it leases. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

The carrying value of property, plant and equipment and intangible assets (excluding goodwill) is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

At each reporting date the Group reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets the Group estimates the recoverable amount of the cash generating unit ('CGU') to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

IMPAIRMENT TESTING OF GOODWILL

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs).

CGUs to which goodwill has been allocated are tested for impairment at least annually.

An impairment loss is recognised for the amount by which a CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use.

To determine the value-in-use, management estimates expected future cash flows from each CGU and determines a suitable discount rate (WACC) in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. The budgeted unallocated departmental costs are assigned to each CGU using an approach agreed by the board.

To determine the fair value less cost to sell, management estimates the cash flow that will be received by selling the CGU at the end of the reporting period. They then assess the characteristics of that particular CGU from the perspective of the market participants at the measurement date.

Impairment losses for CGUs reduce first the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

INVENTORY

Inventory is stated at the lower of cost and net realisable value. The cost of work in progress comprises direct labour, other direct costs, and billable employee expenses.

Provision is made where necessary for obsolete and slow-moving inventory.

PROVISION AND CONTINGENT LIABILITIES

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount can be reliably estimated.

No liability is recognised if an outflow of economic resources as a result of a present obligation is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

FINANCIAL INSTRUMENTS

Financial assets

The Group classifies its financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost, less provision for impairment.

The Group's financial assets measured at amortised cost comprise trade and other receivables, and cash and cash equivalents in the consolidated statement of financial position.

Trade receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets, if not, they are presented as non-current assets.

Trade and other receivables are measured at the transaction price in accordance with IFRS 15.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December 2022 (2021: 31 December 2021) and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The contract assets relate to unbilled revenue, which have performance obligations to be completed. Other than performance risk, the contract assets have substantially the same

risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit-impaired. If the credit risk is significant a provision is posted based on the recoverable amount the Group is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash deposits which are readily convertible to a known amount of cash. Cash and cash equivalents in the statement of financial position include bank overdrafts. An offset position is reported as the Group has a legal right to offset and any settlement would be on a net basis. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and are an integral part of Group cash management.

Investments

Investments in subsidiaries are recorded at cost in the statement of financial position. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the statement of comprehensive income in the period they occur.

Intercompany receivables

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised. The amount of any provision is recognised in the income statement within other operating costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Interest-bearing government loans are recorded initially at their fair value, net of direct transaction costs. Such loans are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings and loan notes

Interest-bearing loan notes and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

Finance charges are accounted for on an accruals basis to the statement of comprehensive income. Overdrafts are offset against cash and cash equivalents when the Group has a legal right of off-set.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost.

Ordinary share capital

For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

POST-EMPLOYMENT BENEFITS

Defined contribution schemes

A defined contribution scheme is a pension plan under which the Group pays a fixed contribution to a scheme with an external provider. The amount charged to the statement of comprehensive income in respect of pension costs and other post-employment benefits is the total of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either other payables or other receivables in the statement of financial position. The Group has no further payment obligations once the contributions have been paid.

Defined benefit scheme

A defined benefit scheme is a pension plan under which the Group pays contributions in order to fund a defined amount of pension that the employees

under the scheme will receive on retirement. The cost of providing the benefits is determined using the projected unit credit method with actuarial valuations being carried out regularly.

An asset or liability is recognised equal to the present value of the defined benefit obligation, adjusted for unrecognised past service costs and reduced by the fair value of plan assets.

Actuarial gains and losses are recognised in the statement of other comprehensive income in the year in which they occur, whilst expected returns on plan assets, servicing costs and financing costs are recognised in the statement of comprehensive income.

The rate used to discount the benefit obligations is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

CLIMATE- RELATED MATTERS

Risks induced by climate changes may have future adverse effects on the Group's business activities. These risks include transition risks (eg regulatory changes and reputational risks) and physical risks (even if the risk of physical damage is low due to the company activities and geographical locations).

Consistent with the prior year, as at 31 December 2022, the Group has not identified significant risks induced by climate changes that could negatively and materially affect the Group's financial statements. Management continuously assesses the impact of climate-related matters.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant judgements

The following judgments have the most significant effect on the financial statements.

Revenue Recognition

The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, subscription and support, professional services, technology enabled outsourced services and consultancy services. Software licences, professional services and annual support are often bundled together in a contract which do not meet the criteria to be distinct performance obligations.

The promises to provide services to the customer may be separately identifiable. However, the services are highly interdependent, interrelated. The Group would not be able to fulfil its promise by transferring each service independently.

Judgement is applied in determining how many performance obligations there are within each contract and the period in which these obligations will be fulfilled and recognised as revenue. For SaaS subscription, subscription and support and annual support the Group determines for each contract whether the promise is considered to be a single performance obligation. The subscription and support are highly interdependent; customers are required to take both the software and support services. Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

Impairment of goodwill

In 2022, the CGUs are identified by the fact they are separate legal entities and so have their own intangible and tangible assets, other current assets and generate cash from their products and services that are separately identifiable from one another. In 2023, we expect that the CGU composition will move in line with the operating segments as the operations of the Group will become even more integrated due to the current year's reorganizational changes. The judgements were made in respect of the WACC, the revenue growth rate applied and the allocation of costs across the CGUs.

The carrying value of goodwill must be assessed for impairment annually. This requires a value in use estimate which is dependent on estimation of future cash flows and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2022 was £34.6m (2021: £34.6m). Refer to note 12 for further detail.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time

value of money and any risks specific to the CGUs. The rates used to discount the future cashflows are based on the Business Unit pre-tax weighted average cost of capital. Where a CGU operates in multiple operating segments weighted average based on 2022 revenue of the relevant WACCs has been used.

The revenue growth rates and margins are based on current Board-approved budgets and forecasts covering a period of five years. Management estimates are considering business growth rates, payroll and other cost base increases; further details are provided in note 12.

The data used for impairment testing procedures are directly linked to the Group's latest budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. The budgeted unallocated departmental costs are assigned to each CGU applying a standard methodology approved by the Board.

Development Costs

The Group invests on a continual basis in the development of software for sale to third parties. There is a continual process of enhancements to and expansion of the software with judgement required in assessing whether the development costs meet the criteria for capitalisation. These judgements have been applied consistently year on year. In making this judgement, the Group evaluates, amongst other factors, whether there are future economic benefits beyond the current period, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Judgement is therefore required in determining the practice for capitalising development costs.

Asset held for sale (AHFS) and discontinued operation

On 1 April 2023, Instem completed the disposal of Samarind Limited with consideration receivable up to £1.0m, of which £0.8m was satisfied by cash receipt on completion, plus or minus estimated net cash, and the remaining balance of £0.2m payable contingent on Samarind's future performance that would be payable in cash.

The Group did not classify Samarind Limited as AHFS as Management concluded that the disposal was not highly probable to be completed under the IFRS 5 requirement and based on the available information as of 31 December 2022.

Samarind Limited was acquired 27 May 2016 without the view of resale but the decision to sell this unit was

concluded when the Group reviewed and assessed their future strategic plans.

As the IFRS 5 criteria were not met as of 31 December 2022, Samarind's Limited disposal is disclosed as a non-adjusting subsequent event (note 33). Additionally, the Consolidated financial statements and related notes represent results from continuing operations, there being no discontinued operations in the years presented. However, the offer price from the buyer was used on the impairment testing (note 12).

Estimation uncertainty

Information about estimations and assumptions that may have the most significant affect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Contingent consideration

Where acquisition consideration includes consideration contingent on performance outcomes being met, the consideration is valued at the acquisition date based on performance forecasts available at the time. Those forecasts are reviewed at the reporting date and the consideration revised where materially different (note 20).

Pension scheme

As stated above the Group operates a defined benefit pension scheme. At the end of each six monthly reporting period the Group seeks external expert actuarial advice on the assumptions to apply to the calculation of the scheme's liabilities. The Group then engages a separate, independent firm of pension advisors to calculate the scheme surplus or deficit at the reporting date for accounting purposes. The scheme deficit at 31 December 2022 was £2.0m (2021: £2.0m).

Revenue Recognition

For Professional services and technology enabled outsourced services revenue recognition there is a significant estimation of the planned project hours, which determines the percentage of completion of service revenue contracts. Before the project is started, the project manager estimates the budgeted hours needed for the agreed services. If the project is expected to overrun then the project manager will amend the expected budgeted hours in accordance with the new available information which also mitigates the risk of early revenue recognition.

1. SEGMENTAL REPORTING

The Group has disaggregated revenue into various categories in the following tables which are intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Group's Chief Operating Decision Maker (CODM) has been identified as the Board of Directors. The Board is responsible for monitoring the performance of these operating segments as well as deciding on the allocation of resources to them.

Over recent years the Group has expanded both organically and through acquisition, increasing the number of products and services offered and in 2020 the Group reported through three operating segments, Study Management, Regulatory Solutions and *In Silico* Solutions. During 2021 the fourth segment, Clinical Trial Acceleration (CTA), was established following the acquisition of d-Wise.

There has been an internal project to enhance the quality of management information following the implementation of a new finance system in 2019. During 2020 this system enabled more centrally recorded costs to be allocated to the individual segments and that process was further developed during recent years. The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, information technology, customer support, people & culture and finance & administration. The CTA segment already bears the majority of its costs directly and as such reports a lower direct contribution margin. However, during 2022 CTA has benefited from synergies which result in an overall improvement on the direct contribution margin.

The analysis provided below reflects costs directly attributable to the respective segments in 2022 and 2021, which are primarily third party costs of sale and costs of allocated employees. The remaining indirect operational costs are accounted for centrally and are not allocated to specific segments.

Additionally, the Group CODM is managing and monitoring the assets and liabilities as a whole since the finance system records the assets and liabilities by legal entity. The CODM consider that any such allocation of assets and liabilities to the operating segments would be arbitrary and sensitive.

1. SEGMENTAL REPORTING (CONTINUED)

SEGMENTAL REPORTING 2022	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trial Acceleration £000	Total £000
Licence fees	4,756	492	666	135	6,049
Annual support fees	8,977	1,222	1,898	8,718	20,815
SaaS subscription and support fees	9,219	3,545	-	894	13,658
Professional services	2,694	407	121	7	3,229
Technology enabled outsourced services	-	6,368	1,100	1,028	8,496
Consultancy services	-	-	-	6,633	6,633
Total revenue	25,646	12,034	3,785	17,415	58,880
Direct attributable costs	(12,563)	(8,516)	(1,783)	(13,017)	(35,879)
Contribution to indirect overheads	13,083	3,518	2,002	4,398	23,001
Contribution to indirect overheads %	51%	29%	53%	25%	
Central unallocated indirect costs					(12,138)
Adjusted EBITDA					10,863
Depreciation					(340)
Amortisation of intangibles arising on acquisitions					(1,953)
Amortisation of internally generated intangibles					(1,096)
Depreciation of right of use assets					(967)
Impairment of goodwill					(107)
OPERATING PROFIT BEFORE NON-RECURRING ITEMS					6,400
Non-recurring costs					(1,208)
Non-recurring income					401
OPERATING PROFIT AFTER NON-RECURRING ITEMS					5,593
Finance income					1,023
Finance costs					(1,143)
PROFIT BEFORE TAXATION					5,473

1. SEGMENTAL REPORTING (CONTINUED)

SEGMENTAL REPORTING 2021	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trial Acceleration £000	Total £000
Licence fees	3,560	273	639	125	4,597
Annual support fees	7,630	1,170	1,573	4,004	14,378
SaaS subscription and support fees	6,069	3,124	-	511	9,704
Professional services	3,000	579	18	54	3,651
Technology enabled outsourced services	-	4,864	812	702	6,378
Consultancy services	-	-	-	7,309	7,309
Total revenue	20,259	10,010	3,042	12,706	46,017
Direct attributable costs	(10,388)	(6,016)	(1,681)	(11,308)	(29,393)
Contribution to indirect overheads	9,871	3,994	1,361	1,398	16,624
Contribution to indirect overheads %	49%	40%	45%	11%	
Central unallocated indirect costs					(8,374)
Adjusted EBITDA					8,250
Depreciation					(312)
Amortisation of intangibles arising on acquisitions					(1,563)
Amortisation of internally generated intangibles					(851)
Depreciation of right of use assets					(945)
OPERATING PROFIT BEFORE NON-RECURRING ITEMS					4,579
Non-recurring costs					(1,286)
Non-recurring income					805
OPERATING PROFIT AFTER NON-RECURRING ITEMS					4,098
Finance income					30
Finance costs					(1,144)
PROFIT BEFORE TAXATION					2,984

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

REVENUE BY PRODUCT TYPE	2022 £000	2021 £000
Licence fees	6,049	4,597
Annual support fees	20,815	14,378
SaaS subscription and support fees	13,658	9,704
Professional services	3,229	3,651
Technology enabled outsourced services	8,496	6,378
Consultancy services	6,633	7,309
	58,880	46,017

REVENUE BY GEOGRAPHICAL LOCATION	2022 £000	2021 £000
UK	3,295	3,540
Europe	8,848	7,477
USA	35,186	26,831
Rest of World	11,551	8,169
	58,880	46,017

United Kingdom and USA have been identified as the major markets where the revenue from the customers in the Group is domiciled.

NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION BY GEOGRAPHICAL LOCATION	2022 £000	2021 £000
UK	55,076	56,925
Europe	2,218	1,895
USA	2,767	1,812
Rest of World	210	433
	60,271	61,065

There were no customers which represented more than 10% of the Group's revenue in 2022 (2021: none).

a. Contract Balances

	2022		2021	
£000	Amounts recoverable on contracts	Deferred income	Amounts recoverable on contracts	Deferred income
At 1 January	2,040	(18,935)	1,826	(9,878)
Transfer in the period from amounts recoverable on contracts to trade receivables	(2,040)	-	(1,826)	-
Amounts included in deferred income that was recognised as revenue during the period	-	18,935	-	9,878
Deferred income on acquisition of the Edge	-	-	-	(555)
Deferred income on acquisition of d-wise	-	-	-	(4,230)
Deferred income on acquisition of PDS	-	-	-	(708)
Amounts recoverable on contracts on acquisition of d-wise	-	-	551	-
Amounts recoverable on contracts on acquisition of PDS	-	-	9	-
Cash received in advance of performance and not recognised as revenue during the period	-	(22,745)	-	(13,442)
Excess of revenue recognised over cash being recognised during the period	2,494	-	1,480	-
At 31 December	2,494	(22,745)	2,040	(18,935)

2. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

a. Contract Balances (continued)

Amounts recoverable on contracts and deferred income are included within “trade and other receivables” and “deferred income” respectively on the face of the statement of financial position.

Amounts recoverable on contracts predominately relate to fulfilled obligations on service contracts where billing is in arrears. At the point where completed work is invoiced, a corresponding receivable is recognised.

Deferred income relates to consideration received from customers in advance of work being completed plus maintenance and support which is invoiced in advance.

b. Remaining performance obligations

The majority of the Group’s contracts are for the delivery of software and services within the next 12 months for which the practical expedient in paragraph 121(a) of IFRS 15 applies.

Additionally, the Group applies the practical expedient in paragraph 121 (b) and does not need to disclose the information for a performance obligation as the Group recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.

The following table details the value of future contracted revenue resulting from the Group’s fixed price long term contracts which is yet to be recognised in the income statement due to the relevant contractual performance obligations not being satisfied before the year end. The majority of these performance obligations are unbilled at the Balance Sheet date and therefore not reflected in these accounts.

The amount of revenue that will be recognised in future periods on these contracts is as follows:

	Less than 1 year £000	Between 1 and 2 years £000	Greater than 2 years £000
Revenue expected to be recognised	6,966	5,041	2,546

c. Contract Costs

It is expected that commissions paid are recoverable. These have therefore been capitalised as an asset and are It is expected that commissions paid are not recoverable. These have therefore not been capitalised as an asset.

As of 31 December 2022, the carrying value of costs to obtain contracts which have been capitalised is the amount of £nil (2021: £nil). Amortisation of £nil (2021: £nil) was recognised during the year.

The entity has applied the practical expedient available in paragraph 94 of IFRS 15 to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

3. OPERATING PROFIT BEFORE NON-RECURRING ITEMS

		2022 £000	2021 £000
Profit from operations includes the following significant items:			
Depreciation and amounts written off property, plant and equipment - owned assets		340	312
Amortisation of intangible assets		3,049	2,414
Depreciation of right to use assets		967	945
Research and development costs	i.	4,448	2,623
Short life lease expenses		126	159
Impairment of goodwill		107	-

i. Research and development cost – relate to internal research and development costs which were not capitalised as at 31 December 2022.

		2022 £000	2021 £000
Amounts payable to PKF Littlejohn LLP and the previous auditors Grant Thornton UK LLP with their associates in respect of both audit and non-audit services			
Current year fees payable to the Group's auditors:			
for the audit of the Parent Company and consolidated financial statements		275	257
Additional audit fees paid to previous auditors in relation to prior year audit		56	-
Non-audit services:			
Taxation services - Compliance		-	27
Taxation services - Advisory		-	6
		331	290

In January 2023, the Group announced the appointment of PKF Littlejohn LLP as Instem's independent auditor of the parent company and the consolidated financial statements for the year ended 31 December 2022.

PKF Littlejohn LLP did not provide any non-audit services to the Group for the year ended 31 December 22.

The following tables analyse employee benefits operating expense and other expenses:

		2022 £000	2021 £000
<i>Employee benefits expense</i>			
Staff costs (see note 7)		31,475	24,759
Share based payments (note 10)		1,377	889
Health and life insurance		1,569	1,233
Other benefits		16	37
		34,437	26,918
<i>Other expenses</i>			
Software maintenance charges		2,066	1,379
Licence costs		2,594	1,716
Third party costs		2,294	2,076
Other expenses (excluding net impairment (gain/loss on financial assets))		6,822	5,320
		13,776	10,491

4. NON-RECURRING ITEMS

NON RECURRING COST	2022 £000	2021 £000
Legal costs and increase in provision for the final settlement relating to historical contract dispute	1,129	95
Acquisition costs	79	1,019
Share based payments	-	172
	1,208	1,286

NON RECURRING INCOME	2022 £000	2021 £000
US government loans forgiven	-	805
Insurance proceeds relating to historical contract dispute	401	-
	401	805

Non recurring costs in the year include acquisition costs of £0.08m (2021: £1.0m) relating to the additional costs in regards to the earn out consideration of the Edge and d-Wise.

The non-recurring items includes the additional provision of €1.2m (£1.02m) for full and final settlement regarding a historical contractual licence dispute that arose in 2017. As previously announced Instem had already created provision of £0.25m in respect of this dispute in the previous years. In October 2022, Instem paid €1.48m (£1.3m), of which its insurer agreed to contribute €0.45m (£0.4m) resulting in a net payment due of approx. €1.0m (£0.9m). The insurance contribution of €0.45m (£0.4m) was included in the non-recurring income.

5. FINANCE INCOME

	2022 £000	2021 £000
Right of use asset interest income	5	6
Other interest	86	24
Foreign exchange gains	932	-
	1,023	30

6. FINANCE COSTS

	2022 £000	2021 £000
Loans and overdrafts	266	85
Unwinding discount on deferred consideration	771	867
Net interest charge on pension scheme	36	51
Right of use asset interest cost	70	97
Foreign exchange losses	-	44
	1,143	1,144

7. EMPLOYEES

<i>Group</i>	2022 Number	2021 Number
Average monthly number (including non-executive directors)		
<i>By role:</i>		
Directors, administration and supervision	76	55
Software design, sales and customer service	417	381
	493	436
	2022 £000	2021 £000
Employment costs:		
Wages and salaries	27,176	21,485
Social security costs	2,402	1,858
Other pension costs	1,897	1,416
	31,475	24,759
<i>Company</i>	2022 Number	2021 Number
Average monthly number (including non-executive directors)		
<i>By role:</i>		
Non-executive directors	4	3
Employment costs:		
Wages and salaries	174	141
Social security costs	16	15
	190	156

8. DIRECTORS' EMOLUMENTS

	2022 £000	2021 £000
<i>Amounts payable by Instem plc:</i>		
Emoluments	174	141
<i>Amounts payable by subsidiary companies:</i>		
Emoluments	423	412
Defined contribution pension contributions	43	38
Total emoluments	466	450

	2022 Number	2021 Number
Number of directors to whom post-employment benefits are accruing under:		
Defined contribution schemes	2	2

The remuneration of the highest paid director during the year ended 31 December 2022 was £300,000 (2021: £289,000). Directors' remuneration analysed by director is shown on page 35.

For further details on key management compensation refer to note 31.

9. LEASES

Lease liabilities are presented in the statement of financial position as follows:

	2022 £000	2021 £000
Current	814	1,077
Non current	491	1,248
	1,305	2,325

Nature of leasing activities in the capacity of lessee

The Group leases a number of offices in the jurisdictions from which it operates. In these jurisdictions the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes effect. The Group also leases one vehicle. The vehicle lease comprises only fixed payments over the lease term. With the exception of short term leases and leases of low value underlying assets, each lease is reflected on the balance sheet as a right of use asset and a lease liability.

In 2022, the lease equipment expired and the Group has opted to continue leasing the equipment under the current terms, but the contract can be terminated by either parties with a 2 month notice period. Therefore, the lease equipment qualifies as a short term lease after the expiration of the lease agreement and all the cost has been recorded in the consolidated statement of comprehensive income.

Additionally, during 2022 three office leases expired in which only one of the three was renewed for less than one year. Therefore that lease qualified as a short term lease.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right of use asset can only be used by the Group. Leases are either non cancellable or may only be cancelled by incurring a termination fee. Some leases contain an option to extend the lease for a further term. For office leases the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

9. LEASES (CONTINUED)

The table below describes the nature of the Groups leasing activities by type of right of use asset recognised on the balance sheet:

Right of use assets	No of right of use assets leased	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with payments linked to an index	No of leases with termination options
Office buildings	11	1.6 years	10	0	1	1
Vehicles	1	0.9 years	0	0	0	0

Right of use assets	Land & buildings £000	Motor vehicles £000	Equipment £000	Total £000
As at 1 January 2021	1,711	30	-	1,741
Additions	261	-	-	261
Acquisitions	539	-	410	949
Restoration costs	70	-	-	70
Depreciation	(686)	(10)	(249)	(945)
Exchange adjustment	(5)	-	6	1
As at 31 December 2021	1,890	20	167	2,077
Additions	-	-	-	-
Lease modification and remeasurement	(20)	-	(61)	(81)
Depreciation	(843)	(10)	(113)	(967)
Exchange adjustment	84	-	7	91
As at 31 December 2022	1,111	10	-	1,120

Lease liabilities	Land & buildings £000	Motor vehicles £000	Equipment £000	Total £000
As at 1 January 2021	2,053	31	-	2,084
Additions	261	-	-	261
Acquisitions	539	-	410	949
Interest expense	84	1	11	96
Lease payments	(795)	(11)	(253)	(1,059)
Exchange adjustment	(9)	-	3	(6)
As at 31 December 2021	2,133	21	171	2,325
Lease modifications	(20)	-	(63)	(83)
Interest expense	67	1	2	70
Lease payments	(998)	(11)	(87)	(1,096)
Exchange adjustment	112	-	(23)	89
As at 31 December 2022	1,294	11	-	1,305

9. LEASES (CONTINUED)

Reconciliation of movements of lease liabilities to cash flows

<i>Cash flow changes</i>	Land & buildings £000	Motor vehicles £000	Equipment £000	Total £000
Interest expenses	83	1	12	96
Payment of lease liabilities	712	10	241	963
At 31 December 2021	795	11	253	1,059
Interest expenses	67	1	2	70
Payment of lease liabilities	931	10	85	1,026
As at 31 December 2022	998	11	87	1,096

Lease liability maturity analysis:

As at 31 December 2021	1 year or less £000	2 to 5 years £000	After five years £000	Total £000
Lease liabilities	1,077	1,229	19	2,325

As at 31 December 2022	1 year or less £000	2 to 5 years £000	After five years £000	Total £000
Lease liabilities	814	491	0	1,305

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The following amounts in respect of leases, where the company is a lessee, have been recognised in consolidated statement of comprehensive income:

	2022 £000	2021 £000
Expenses relating to short-term leases	126	159
Low value lease expense	35	81
Interest expense	70	96
Amortisation of right of use assets	967	945

At 31 December 2022, the Group was committed to short term leases and the total commitment at that date was £0.07m.

The total cash outflow for leases in 2022 was £1.0m (2021: £1.0m).

9. LEASES (CONTINUED)

Finance lease receivable

Nature of leasing activities in the capacity of lessor

The Group also acts as a lessor in relation to a sublease of part of one of the properties rented. As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

Movement in net investment in leases in relation to sub leases during the year ended 31 December 2022 and 31 December 2021 are as follows:

	£000
As at 1 January 2021	169
Interest earned	6
Less: Rental income received	(46)
Exchange adjustment	-
At 31 December 2021	129
Interest earned	5
Less: Rental income received	(53)
Exchange adjustment	14
At 31 December 2022	95

Minimum undiscounted lease payments receivable are as follows:

	2022 £000	2021 £000
Within 1 year	56	49
Between 1 and 2 years	43	50
Between 2 and 3 years	-	34
Between 3 and 4 years	-	-
Later than 5 years	-	-
	99	133

Reconciliation of minimum undiscounted lease payments to net investment in the lease:

	2022 £000	2021 £000
Total minimum undiscounted lease payments receivable	99	133
Unearned finance income	(4)	(4)
Net investment in the lease	95	129

9. LEASES (CONTINUED)

Finance lease receivable maturity analysis:

As at 31 December 2021	1 year or less £000	2 to 5 years £000	After five years £000	Total £000
Finance lease receivable	44	85	-	129

As at 31 December 2022	1 year or less £000	2 to 5 years £000	After five years £000	Total £000
Finance lease receivable	53	42	-	95

10. SHARE BASED PAYMENT

Equity-Settled Share Option Plan

The Remuneration Committee can grant options to employees of the Group. Options are granted with a fixed exercise price at the date of grant and the contractual life is generally ten years from the grant date. Options generally vest and become exercisable after three years if certain performance criteria have been met.

There are two types of share option awards:

- Share options awarded to all employees as part of their annual bonus, providing they have met certain annual bonus targets, subject to continued employment (normally three years) and with no further performance conditions.
- Share options awarded to directors and senior employees generally carry profitability (EBITDA) or market-based performance conditions

Share options awarded to all employees

In 2020, the Group introduced the share options to all employees as part of the annual bonus award. If the employees meet certain annual bonus targets, they are then subject to continued employment and passage of time (normally three years) with no further performance conditions. This share option has been awarded to all employees in 2020, 2021 and 2022.

In 2022, the Group granted 64,511 of nil-cost share options to all employees subject to continued employment, passage of time and no other performance conditions

Share options awarded to directors and senior employees

Share options issued to directors and senior employees generally carry profitability (EBITDA) or market-based performance conditions. During 2022, the Group did not issue performance related share option awards to directors and senior employees.

The following share awards issued to directors and senior employees that have not lapsed as of 31 December 2022 relate to:

LTIP awards prior to 2018

The share options awarded prior to 2018 have vested but not lapsed as of 31 December 2022.

2018 LTIP awards

An award under the Instem Long Term Incentive Plan ("LTIP") was made in 2018 which entitles participants to shares at the end of a three year performance period based on achievement against an absolute share price performance condition. Awards are in the form of nil-cost share options.

The award is in the form of 3 tranches, with performance testing at the end of each financial year over the 3 year performance period. A maximum of 25% of the total award vests for each of the first two tranches and a maximum of 50% vests under the third tranche. Performance is measured at the end of each financial year and if the relevant target is not met the portion under that tranche lapses with no retesting.

The share options awarded in 2018 have vested but not lapsed as of 31 December 2022.

10. SHARE BASED PAYMENT (CONTINUED)

2020 LTIP awards

In addition to the share options awarded to all employees as part of the annual bonus in 2020, the Group awarded directors and senior employees with LTIP awards linked to performance targets.

The performance awards vest when certain share price conditions are met. The award is in the form of 3 tranches, with performance tested at the end of each financial year over a 3 year performance period. A maximum of 30% of the total award vests for each of the first two tranches and a maximum of 40% vests under the third tranche. The performance criteria for this share options award were met.

2021 LTIP award with performance target

On 1 September 2021 and 27 September 2021, the Group granted awards of nil-cost options to participating employees which vest after three years subject to the performance conditions of either end share value or EBITDA.

The award is in the form of 3 tranches, with performance testing at the end of each financial year over the 3 year performance period. A maximum of 30% of the total award vests for each of the first two tranches and a maximum of 40% vests under the third tranche.

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at the beginning of the year	1,548,501	0.07	1,259,102	0.11
Granted	64,511	0.00	431,479	0.01
Lapsed	(54,132)	0.00	(53,413)	0.03
Exercised	(217,500)	0.17	(88,667)	0.25
Outstanding at end of the year	1,341,380	0.06	1,548,501	0.07
Exercisable at end of year	434,351	0.18	651,851	0.17

The options outstanding at 31 December 2022 had exercise prices of £nil, £0.10 and £0.90 (2021: £nil, £0.10, £0.90, £1.76 and £2.22) and a weighted average remaining contractual life of 5 years 11 months (2021: 7 years 1 month).

A charge of £1.377m (2021: £1.061m) arose in respect of share based payments.

The fair value of options granted in the year was £0.4m (2021: £2.6m).

During the year, the average share price in respect of share options exercised was £6.51 (2021: £7.90)

In 2022, the Group granted 64,511 of nil-cost share options to all employees subject to continued employment, passage of time and no other performance conditions. The fair market value of the share options have been estimated using the market price of Instem's shares at the grant date.

In 2021, the Group granted new options for 431,479 shares. The Monte-Carlo option-pricing model has been used where option conditions are market related and Black-Scholes where option conditions are EBITDA related. The fair market value has been estimated using the following key assumptions:

Grant date 2021	22 March	16 April	1 September	27 September
Expected life (years)	1.8	2.7	3.0	3.0
Share price at grant date	£5.78	£6.63	£8.38	£9.00
Exercise price	Nil	Nil	Nil	Nil
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk free rate	NA	NA	0.2%	0.4%
Volatility	NA	NA	29%	29%
Fair value of options (average)	5.70	6.63	5.86	6.92

11. TAXATION

Income taxes recognised in profit or loss:	2022 £000	2021 £000
Current tax:		
UK corporation tax in respect of previous years	(614)	(268)
Adjustments in respect of R&D tax credit	42	351
Foreign tax	(1,793)	(1,111)
Foreign tax in respect of previous years	428	(54)
Total current tax charge	(1,937)	(1,082)
Deferred tax:		
Current year charge	419	(147)
Adjustment in respect of previous years	883	575
Defined benefit liability	(141)	(91)
Impact of rate change	-	(560)
Total deferred tax credit/(charge)	1,161	(223)
Total income tax charge recognised in the current year	(776)	(1,306)

The UK corporation tax is calculated at the prevailing rate of 19%. Foreign tax liabilities are calculated at the prevailing tax rates applying in the overseas tax jurisdictions.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had been substantively enacted at the balance sheet date, its effects are included in the financial statements as a change from 19% to 25% on deferred tax.

11. TAXATION (CONTINUED)

The income tax (expense)/credit can be reconciled to the accounting profit as follows:	2022 £000	2021 £000
Profit before tax	5,473	2,984
Profit before tax multiplied by standard rate of corporation tax in the UK 19.0% (2021: 19.0%)	(1,040)	(567)
Effects of:		
Expenses not allowable for tax purposes	465	(278)
Enhanced R&D tax relief	325	341
Losses surrendered for R&D tax credit	(55)	(460)
R&D tax credit accrual	124	408
Tax losses not previously recognised	(732)	(137)
Difference in tax rates on timing differences	55	-
Adjustments in respect of prior years	696	252
Impact of change in tax rate	-	(560)
Overseas withholding taxes and double tax relief	(513)	(36)
Difference in overseas tax rates	(101)	(269)
Total income tax charge recognised in consolidated statement of comprehensive income	(776)	(1,306)

12. INTANGIBLE ASSETS

Group	Goodwill £000	Software £000	Intellectual property £000	Customer relationships £000	Brand Names £000	Patents £000	Total £000
Cost							
At 1 January 2021	12,658	9,413	5,712	3,138	380	21	31,322
Additions	-	2,238	-	-	-	-	2,238
Acquisitions	24,444	-	4,010	10,691	1,392	-	40,537
Exchange adjustment	-	(71)	-	-	-	-	(71)
At 31 December 2021	37,102	11,580	9,722	13,829	1,772	21	74,026
Additions	51	3,036	-	-	-	-	3,087
Exchange adjustment	-	128	-	-	-	-	128
At 31 December 2022	37,153	14,744	9,722	13,829	1,772	21	77,241
At 1 January 2021	2,482	5,142	3,795	1,830	29	21	13,299
Amortisation expense	-	851	663	777	123	-	2,414
Exchange adjustment	-	2	-	-	-	-	2
At 31 December 2021	2,482	5,995	4,458	2,607	152	21	15,715
Amortisation expense	-	1,096	717	1,053	183	-	3,049
Impairment charge on goodwill	107	-	-	-	-	-	107
Exchange adjustment	-	29	-	-	-	-	29
At 31 December 2022	2,589	7,120	5,175	3,660	335	21	18,900
Net book value							
At 31 December 2020	10,176	4,271	1,917	1,308	351	-	18,023
At 31 December 2021	34,620	5,585	5,264	11,222	1,620	-	58,311
At 31 December 2022	34,564	7,624	4,547	10,169	1,437	-	58,341

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £13.9m (2021: £10.8m) with accumulated amortisation of £5.7m (2021: £4.5m). Software additions for the year include £3.0m relating to internal development (2021: £2.2m).

The amortisation of software is included in “*amortisation of internally generated intangibles*” and the amortisation of acquired intangibles is included in “*amortisation of intangibles arising on acquisitions*”.

The increase of the gross carrying amount of goodwill in 2022 relates to a change in d-Wise contingent consideration paid. As per the share purchase agreement, any of d-Wise accounts receivables which were not included in the closing working capital, but were subsequently collected by d-Wise during the twelve month period following the date of final determination of closing working capital have been added and paid in the first deferred payment. As the changes in the fair value of the contingent consideration qualified within the measurement period adjustments of twelve months then the amount of £0.05m was adjusted retrospectively with corresponding adjustments against goodwill and cost of investments.

An impairment loss of £0.11m was recognised on goodwill for Samarind which is part of the Regulatory Solutions business segment. The fair value less cost to sell method was used to calculate the recoverable amount as the recoverable amount is the higher between value in use and FV less cost to sell method.

12. INTANGIBLE ASSETS (CONTINUED)

Identification of the Cash Generating Units (CGUs)

In 2022 and in previous years, the CGUs have been based on the Group's legal structure. The assessment has been performed at the legal entity level given the significant amount of judgement in assessing what level the cashflows are independent of each other.

However, in 2023 we are considering restructuring of the CGUs in response to the ongoing changes of the Group's internal and external activities. We expect that the CGU composition will move in line with the operating segments as the operations of the Group will become even more integrated due to the current year's reorganizational changes.

Gross carrying amount of goodwill

In 2022, the CGUs are identified by the fact that they are separate legal entities and so have their own intangible and tangible assets, other current assets and generate cash from their products and services that are separately identifiable from one another.

The 10 CGUs identified in 2021 for impairment purposes were Instem LSS Limited Group, Instem Scientific Limited, Perceptive Instruments Limited, Samarind Limited, Notocord SA, Leadscope Inc, Instem Clinical Holdings Limited, the Edge Consultancy Limited, d-Wise Technologies Inc and PDS Pathology Data Systems Limited.

In 2022, PDS Pathology Data Systems Limited has been fully integrated within the Group's existing product entities therefore we were unable to identify the forecast cash flow for PDS only. As a result, in 2022 we identified the 9 CGUs as Instem LSS Limited & PDS Pathology, Instem Scientific Limited, Perceptive Instruments Limited, Samarind Limited, Notocord SA, Leadscope Inc, Instem Clinical Holdings Limited, the Edge Consultancy Limited, and d-Wise Technologies Inc.

The allocation of goodwill to CGUs is as follows:

	2022 £000	2021 £000	Acquisition date
Instem LSS Limited	13,266	5,858	27 March 2002
PDS Pathology Data Systems Ltd		7,408	1 September 2021
Instem Scientific Limited	498	498	3 March 2011
Perceptive Instruments Limited	669	669	21 November 2013
Samarind Limited	487	594	27 May 2016
Notocord SA	489	489	2 September 2016
Leadscope Inc	2,068	2,068	15 November 2019
Instem Clinical Holdings Limited	-	-	
The Edge Software Consultancy Ltd	3,927	3,927	1 March 2021
d-Wise Technologies, Inc	13,109	13,109	1 April 2021
	34,564	34,620	

The Goodwill related to a CGU, being Instem Clinical Holdings Limited, was fully impaired in 2019.

An impairment loss of £0.11m was recognised on goodwill for Samarind CGU; please refer below for further details.

Impairment testing

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

12. INTANGIBLE ASSETS (CONTINUED)

Key assumptions

The recoverable amounts of the CGUs are determined from value-in-use calculations and the fair value less cost to sell method.

The key assumptions for the value in use calculations are those regarding discount rates, growth rates, margins and cashflows.

Additionally, the key assumption for the FV less cost to sell method is the sales multiple and price increase applied, which was based on market activity at the time.

Discount rates

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and any risks specific to the CGUs. The rates used to discount the future cashflows are based on the operating segment pre-tax weighted average cost of capital. Where a CGU operates in multiple operating segments weighted average WACCs based on revenue has been used.

After performing further sensitivity analysis, management approved the use of the different pre-tax WACC across the 9 CGUs:

CGUs	Pre-tax WACC
Instem LSS and PDS Pathology	19.0%
Instem Scientific Limited	16.7%
Perceptive Instruments Limited	19.1%
Samarind Limited	18.3%
Notocord SA	19.1%
Leadscope Inc	16.7%
Instem Clinical Holdings Limited	19.1%
The Edge Software Consultancy Ltd	19.1%
d-Wise Technologies, Inc	17.7%

Growth rates and terminal values

The revenue growth rates and margins are based on current Board-approved budgets and forecasts covering a period of five years. The Group produced a budget for 2023 and then forecast up to 2027 based on growth rates of each operating segment.

Where a CGU operates in multiple operating segments a weighted average was used based on the current year's revenue for the relevant CGUs average growth rate. The growth rates that have been applied were:

CGUs	2024	2025	2026 and 2027
Instem LSS and PDS Pathology	10.2%	8.4%	8.5%
Instem Scientific Limited	15.0%	20.0%	25.0%
Perceptive Instruments Limited	10.0%	8.0%	8.0%
Samarind Limited	10.0%	8.0%	8.0%
Notocord SA	10.0%	8.0%	8.0%
Leadscope Inc	15.0%	20.0%	25.0%
Instem Clinical Holdings Limited	10.0%	8.0%	8.0%
The Edge Software Consultancy Ltd	10.0%	8.0%	8.0%
d-Wise Technologies, Inc	10.0%	12.0%	12.0%

12. INTANGIBLE ASSETS (CONTINUED)

In 2021 the growth that has been applied was 8.8% for LSS and PDS, 15% for Instem Scientific and Leadscope, 7.5% for Perceptive Instruments, 5% for Notocord SA, 5% Instem Clinical Holdings Limited, 10% for Samarind and 10% for The Edge and d-Wise businesses.

For the perpetuity calculation (2028 and onwards) a 3.3% growth rate was applied to all CGUs which management estimates as reasonable considering the current inflation rate, payroll and other cost base increases (2021: 2.5% perpetuity growth rate was applied to all CGUs) and the terminal value is calculated using the Gordon Growth Model.

Sensitivity analysis

Management has carried out sensitivity analyses on the key assumptions used in recoverable amount calculations.

The carrying amount of our investments includes goodwill, other intangible assets, tangible assets and right of use assets.

The table below shows the headroom of recoverable amount over the carrying amount, sensitivities for the additional increase in the discount rate and reduction in forecast revenues. The sensitivities below show the percentage change required in each of the assumptions to create an impairment.

	Recoverable amount exceeds the carrying amount	Sensitivity of the CGUs on increased discount rate	Sensitivity of the CGUs on reduction in revenue
Instem LSS and PDS	345%	41%	20%
Instem Scientific Limited	232%	15%	6%
Perceptive Instruments Limited	203%	17%	11%
Samarind Limited	-	-	-
Notocord SA	-	-	-
Leadscope Inc	543%	52%	41%
Instem Clinical Holdings Limited	-	-	-
The Edge Software Consultancy Ltd	181%	14%	26%
d-wise Technologies, Inc	181%	12%	11%

The value in use calculations are reliant on the accuracy of management's forecast and the assumptions that underlie them as well as the discount rate and growth rates applied.

The recoverable amount of the Instem Clinical, Samarind and Notocord CGUs using the value-in-use calculation did not exceed the carrying amount of these CGUs. However, using the FV less cost to sell method to calculate the recoverable amount shows that the recoverable amount is more than the carrying amount for Instem Clinical and Notocord CGUs. As per IAS 36, the recoverable amount is the higher between value in use and FV less cost to sell method which means that there was no impairment charge required for both CGUs. The Goodwill related to a CGU, being Instem Clinical Holdings Limited, was fully impaired in 2019 therefore the CGU is not sensitive to any assumptions.

The key assumptions for the FV less cost to sell method were:

- the sales multiple applied,
- revenue lines which the sales multiple was applied and,
- the price rate increase.

Instem plc is a financial instrument categorised in Level 1 as it is traded on the AIM Market. However, Notocord SA and Clinical Limited which are direct subsidiaries of Instem plc are not traded in an active market. Both CGUs are included within the Study Management operating segments.

12. INTANGIBLE ASSETS (CONTINUED)

As per IFRS 13 inputs other than quoted prices included within Level 1 that are observable for the assets either directly or indirectly are categorised in Level 2. Therefore, level 2 sales values of Notocord SA and Clinical Limited have been derived using the sales multiple comparison approach with other entities within the same operating segment of the Study Management. Management compared the sales multiples for Instem plc against similar entities within the same operating segment and decided to use 3.2 sales multiples on recurring revenue which is lower than the sales multiple calculated for Instem plc and the average of the entities included in the Study Management segment.

Additionally, for the FV less cost to sell method management decided to exclude from the model any non-recurring revenue. Therefore, for calculating the recoverable amount management took into consideration only annual support and SaaS subscription and support in the FV less cost to sell model. Any other revenue types have been removed for the valuation assessment. Management also included a 6% price rate increase in the FV less cost to sell model which was lower than global inflationary pressures.

The table below shows the headroom for the key assumption on which Management has based its determination of the unit's recoverable amount:

	Recoverable amount exceeds the carrying amount £000	Sales multiple that would cause carrying amount to exceed the recoverable amount	Price rate increase that would cause carrying amount to exceed the recoverable amount
Notocord SA	18	3.17	5.2%
Instem Clinical Holdings Limited	829	N/a	N/a

The table below shows the headroom of recoverable amount over the carrying amount, sensitivities in the sales multiples and price increase. The sensitivities below show the percentage change required in each of the assumptions to create an impairment.

	Recoverable amount exceeds the carrying amount	Sensitivity of the CGUs on sales multiple rate	Sensitivity of the CGUs on price increase rate
Notocord SA	101%	1%	1%
Instem Clinical Holdings Limited	N/a	N/a	N/a

On 1 April 2023, Instem completed the transaction and disposed Samarind Limited which is part of the Regulatory Solutions business segment. The consideration receivable is up to £1.0m, of which £0.8m is satisfied by cash receipt on completion plus or minus estimated net cash and the remaining £0.2m payable contingent on Samarind Limited future performance payable in cash. The offer price was used for the impairment testing.

Therefore, using the net realisable value calculations based on sales multiples the Group concluded a goodwill impairment of £0.11m should be recognised in 2022 in relation to Samarind Limited.

Review of carrying value of goodwill

Following the review of the carrying value of goodwill as at 31 December 2022, which has been undertaken across the Group as required by IAS 36 – Impairment of Assets, the Directors have concluded that there is no need to recognise an impairment loss in 2022 except for Samarind Limited.

As of 31 December 2021, the recoverable amount for each of the CGUs was measured using the value in use calculation. The key assumptions used for the value in use calculations were those regarding discount rates, growth rates, margins and cashflows. In 2021, management concluded that there are no indicators for impairment on the CGUs as the recoverable amount for each CGU was higher than its carrying value. However, PDS, Instem Scientific, Notocord and Samarind CGUs were highlighted as sensitive to increases in discount rate and fall in revenue growth rates.

The value in use calculations are reliant on the accuracy of management's forecast and the assumptions that underlie them as well as the discount rate and growth rates applied.

Other intangible assets

As of 31 December 2022 and 2021, there were no indications that any other intangible assets may be impaired.

13. INVESTMENTS IN SUBSIDIARIES

Cost	£000
At 1 January 2021	29,422
Additions	20,576
At 31 December 2021	49,998
Additions	17,893
At 31 December 2022	67,891
Provisions for impairment	£000
At 1 January 2021	2,802
Addition	8
At 31 December 2021	2,810
Impairment charge	1,357
At 31 December 2022	4,167
Carrying value	£000
At 31 December 2021	47,188
At 31 December 2022	63,724

In December 2022, Instem Life Science Systems Limited (ILSS) issued ordinary shares with a value of £4.8m to Instem Plc in exchange for a reduction in the amount owed from ILSS to Instem Plc. The appropriate documentations were drafted and filed with Companies House in respect of the issue of shares.

ILSS transferred its investment in Instem LSS Limited to Instem Plc at book value £11.7m in exchange for an intercompany balance.

Finally, the amount of £1.4m relates to the share options that Instem plc awarded all employees of its subsidiaries subject to continued employment. Instem plc received the services indirectly through subsidiary in a form of an increased investment.

An impairment provision of £1.4m has been made in 2022 against the carrying value of the investment in Samarind which is part of the Regulatory Solutions business segment.

The Group tests annually for impairment against investments held.

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

At 31 December 2022 the Group had eleven wholly-owned subsidiaries and sixteen wholly-owned sub-subsidiaries, details of which are as follows:

Company	Registered Address	Activity	Ownership
Instem Life Science Systems Limited (company number 04339129) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Holding Company	100% by Instem plc
Instem LSS Limited (company number 03548215) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Software development, sales, sales support and administrative support	100% by Instem plc
Instem LSS (North America) Limited (company number 02126697) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Sales, sales support and administrative support	100% by Instem LSS Limited
Instem LSS (Asia) Limited (company number 1371107) Hong Kong	Suite 1106-8 11/F Tai Yau Building No 181 Johnston Road Wanchai	Holding Company	100% by Instem LSS Limited
Instem Information Systems (Shanghai) Limited (company number 310115400257075) Shanghai, PRC	Room 218, Building 3 No. 690 Bibo Road Zhanjiang High Tech Park Pudong District Shanghai 201203	Sales, sales support and service	100% by Instem LSS (Asia) Limited
Instem Scientific Limited (company number 03861669) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem plc
Instem Scientific Solutions Limited (company number 03598020) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Dormant	100% by Instem Scientific Limited
Instem Scientific Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	Leading provider of software solutions for extracting intelligence from R&D related healthcare data	100% by Instem Scientific Limited
Instem India Pvt Limited (company number U73100MH2012FTC231951) India	Adisa Icon Mumbai Bangalore Highway Bavdhan Budruk Pune 411021	Software development	99.9% by Instem LSS Limited 0.1% by Instem LSS (NA) Limited
Instem Clinical Holdings Limited (company number 05840032) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Holding of intellectual property rights and investment in group companies	100% by Instem plc
Instem Clinical Limited (company number 06959053) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Instem Clinical Inc. USA	Suite 1550 161 Washington Street 8 Tower Bridge Conshohocken PA 19428	Provision of electronic data capture and clinical management solutions to the pharmaceutical industry	100% by Instem Clinical Holdings Limited
Perceptive Instruments Limited (company number 02498351) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Development, manufacture and supply of software and hardware products for <i>in vitro</i> study data collection and study management in the genetic toxicology, microbiology and immunology markets	100% by Instem plc

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Company	Registered Address	Activity	Ownership
Instem Japan K.K. (company number 0104-01-120355) Japan	Shinagawa Intercity Tower, A Level 28 2-15-1 Konan, Minato-ku Tokyo 108-6028	Sales, sales support and service	100% by Instem LSS Limited
Leadscope Inc. USA	1393 Dublin Road Columbus Ohio 43215	Leading provider of <i>in-silico</i> safety assessment software	100% Instem Scientific Inc
Samarind Limited (company number 02105894) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Provider of regulatory information management software	100% by Instem plc
Notocord Systems S.A. (company number 350927349) France	Parc des Grillons 60, route de Sartrouville 78230 Le Pecq Paris	Software development, sales support and administrative support	100% by Instem plc
Notocord Inc. USA	PO Box 10188 Newark New Jersey 07101-3188	Sales, sales support and administrative support	100% by Notocord Systems S.A.
The Edge Software Consultancy Limited (company number 05400315) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Software development, sales, sales support and consultancy activities	100% by Instem plc
d-wise Technologies UK Limited (company number 07352898) England and Wales	Diamond Way Stone Business Park Stone, Staffordshire ST15 0SD	Software development, sales, sales support and consultancy activities on clinical trial analysis	100% by Instem plc
Instem Inc USA	300 Creek View Road Suite 209 Newark DE 19711	Holding Company	100% by Instem plc
d-wise Technologies Inc USA	2100 Gateway Centre Blvd. Suite 150 Morrisville NC 27560	Software development, sales, sales support and consultancy activities on clinical trial analysis	100% by Instem plc
d-wise Technologies Inc., Morrisville succursale de Genève Branch Switzerland	Dryden ICS SA, Avenue Blanc, 47 Genève 1202 Switzerland	Software development, sales, sales support and consultancy activities on clinical trial analysis	100% by d-wise Technologies Inc
d-wise Technologies Deutschland GmbH (company number HRB 112147) Germany	Eschersheimer Landstrasse 6 60322 Frankfurt am Main	Software development, sales, sales support and consultancy activities on clinical trial analysis	100% by d-wise Technologies Inc
Pathology Data Systems AG Switzerland	Duerrenhuebelstrasse 9 CH-4133 Pratteln, Basel, Switzerland	Software development, sales, sales support and provider of regulatory information management software	100% by Instem plc
Preclinical Data Systems, Inc. USA	100 Valley Road, Suite 204 Mt. Arlington, New Jersey 07856	Software development	100% by Pathology Data Systems AG
Pathology Data Systems Ltd Japan Branch Japan	3-5-1 Aoihigashi Naka-ku, Hamamatsu – shi Shizuoka Prefecture 433-8114 Japan	Software development	100% by Pathology Data Systems AG

14. PROPERTY, PLANT AND EQUIPMENT

<i>Group</i>	Short leasehold property £000	IT hardware & software £000	Total £000
Cost			
At 1 January 2021	82	1,764	1,846
Additions	-	144	144
Disposals	-	(255)	(255)
Acquisition	-	525	525
Exchange adjustment	(2)	35	33
At 31 December 2021	80	2,213	2,293
Additions	-	478	478
Disposals	-	(58)	(58)
Exchange adjustment	3	234	237
At 31 December 2022	83	2,867	2,950
Depreciation			
At 1 January 2021	49	1,559	1,608
Depreciation expense	13	299	312
Disposals	-	(247)	(247)
Exchange adjustment	(1)	29	28
At 31 December 2021	61	1,640	1,701
Depreciation expense	9	331	340
Disposals	-	(55)	(55)
Exchange adjustment	3	193	196
At 31 December 2022	73	2,109	2,182
Net book value			
At 31 December 2020	33	205	238
At 31 December 2021	19	573	592
At 31 December 2022	10	758	768

A review of the useful life for fixed assets has been performed in regard to climate change and environmental regulations as known at the reporting date and which has not identified any significant impact to the Group's carrying amounts of property, plant and equipment.

15. INVENTORIES

<i>Group</i>	2022 £000	2021 £000
Work in progress	76	64
	76	64

	2022 £000	2021 £000
Total gross inventories	76	64

The inventory mainly consists of high-quality industrial-standard cameras and associated hardware for the Instem Sorcerer Colony Counter product.

In 2022, a total of £0.02m (2021: £0.02m) of inventory was included in profit and loss as an expense.

16. TRADE AND OTHER RECEIVABLES

<i>Group</i>	2022 £000	2021 £000
Trade receivables	13,114	11,165
Amounts recoverable on contracts	2,494	2,040
Prepayments and other receivables	2,737	1,647
	18,345	14,852

<i>Company</i>		
Amounts owed by group companies	25,344	20,156
Other receivables	126	166
	25,470	20,322

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

An allowance has been made for estimated credit losses from trade receivable and amounts recoverable on contracts as per below:

An analysis of the provision for impairment of receivables is as follows:	2022 £000	2021 £000
<i>Group</i>		
At beginning of year	502	144
Increase in provision for impairment	235	391
Reversal of provision for impairment	(431)	(35)
Amounts used during the year	(34)	-
Foreign exchange adjustment	3	2
At end of year	275	502

The net reversal of last year's impairment charge on financial assets was £0.2m (2021: net impairment loss £0.4m)

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Definition of default

A loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default based on an assessment of past payment practices over a 5 year period prior to 31 December 2022 and the likelihood of such overdue amounts being recovered.

Impairment of trade receivables

The probability of default is determined at the year-end based on the ageing of the receivables and historical data about default rates. That data is adjusted if the Group determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

The calculated simplified expected credit loss of trade receivables is deemed immaterial in the current year (2021: immaterial). The directors therefore do not deem it necessary to increase the impairment provision which is in relation to specific credit-impaired receivables.

The average credit period taken on sale is 75 days (2021: 77 days). No interest has been charged on overdue receivables.

Before accepting any new significant customer, the Group obtains relevant credit references to assess the potential customer's credit quality. Credit limits are defined by the customer.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Impairment of amounts owed by group companies

The Company assesses the expected credit loss in respect of group receivables based on their ability to repay and recover the balance. In the absence of agreed terms this consideration is given over the expected period of repayment and any expected credit loss. As at the period end the Company has charged a provision of £0.2m for amounts owed by group companies (2021: reversed a provision of £0.02m). The amount of the provision was £0.4m as of 31 December 2022 (2021: £0.2m).

The age profile of the net trade receivables for the Group at the year-end was as follows:

Debt age						
	Group 2022	Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts						
Value (£000)		12,170	2,270	649	519	15,608
%		78	15	4	3	100

Debt age						
	Group 2021	Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables/Amounts recoverable on contracts						
Value (£000)		9,885	1,440	851	1,029	13,205
%		75	11	6	8	100

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

17. CASH AND CASH EQUIVALENTS

Group	2022 £000	2021 £000
Cash at bank	13,964	24,019
Bank overdraft	-	(8,998)
	13,964	15,021
Company		
Cash at bank	22	3,294

The Group signed a new financing arrangement with HSBC UK Bank plc in April 2022, which consists of a committed facility of £10.0m for general corporate purposes, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance.

The cash and cash equivalents in the 2021 statement of financial position includes a bank overdraft of £9.0m with NatWest Bank plc. The bank overdraft was secured by fixed and floating charges over certain Group assets and was repayable on demand. An offset position was reported as the Group had a legal right to offset any settlement would be on a net basis.

During 2022, the Group settled the bank overdraft balance of £9.0m with former bankers NatWest Bank plc prior to entering into the new financing arrangement with HSBC UK Bank plc.

An analysis of cash and cash equivalents by currency is as follows:

Group	2022 £000	2021 £000
Sterling	1,459	1,476
Euro	589	1,188
US Dollar	8,078	6,515
Renminbi	3,181	3,535
Swiss Franc	346	1,646
Other	311	661
	13,964	15,021
Company		
Sterling	22	3,294
	22	3,294

The carrying amount of these assets approximates to their fair value.

18. TRADE AND OTHER PAYABLES

	2022 £000	2021 £000
Group - Current		
Trade payables	2,232	1,522
Other taxation and social security costs	641	686
Accruals	2,454	3,515
	5,327	5,723

	2022 £000	2021 £000
Company - Current		
Trade payables	180	275
Amounts owed to group companies	27,242	15,921
Accruals	472	436
	27,894	16,632

The directors consider that the carrying amount of trade and other payables approximates to fair value due to their short maturities.

19. DEFERRED INCOME

	2022 £000	2021 £000
Consideration received from customers in advance of work being completed plus maintenance and support which is invoiced in advance	22,745	18,935

20. FINANCIAL LIABILITIES

An analysis of financial liabilities as presented in the statement of financial position is as follows:

Group	2022 £000	2021 £000
Deferred consideration	3,605	4,276
Contingent consideration	2,160	2,336
Current liability	5,765	6,612

	2022 £000	2021 £000
Deferred consideration	-	3,060
Contingent consideration	-	1,668
Non current liability	-	4,728

Company	2022 £000	2021 £000
Deferred consideration	-	1,218
Contingent consideration	965	904
Current liability	965	2,122

	2022 £000	2021 £000
Contingent consideration	-	757
Non current liability	-	757

As of 31 December 2022, the contingent consideration included in the Group is in respect of the acquisition of The Edge and d-Wise which were purchased on 1 March 2021 and 1 April 2021 respectively.

As of 31 December 2022, the deferred consideration above is in respect of the acquisitions of The Edge and d-Wise. The PDS deferred consideration was fully paid in September 2022.

The financial liability maturity analysis is disclosed in the table below.

2022	1 year or less £000	1 to 2 years £000	2 to 5 years £000	Total £000
Deferred consideration	3,605	-	-	3,605
Contingent consideration	2,160	-	-	2,160
	5,765	-	-	5,765

2021	1 year or less £000	1 to 2 years £000	2 to 5 years £000	Total £000
Deferred consideration	4,276	3,060	-	7,336
Contingent consideration	2,336	1,668	-	4,004
	6,612	4,728	-	11,340

21. FINANCIAL INSTRUMENTS

Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The main types of risks are credit risk, liquidity risk and market risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows.

The Group does not engage in the trading of its financial assets and the most significant financial risks to which the Group is exposed are described below.

FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable input).

2022 Group and Company	Carrying amount £000	Fair value £000	Level 3 £000
Contingent consideration	2,160	2,160	2,160

2021 Group and Company	Carrying amount £000	Fair value £000	Level 3 £000
Contingent consideration	4,004	4,004	4,004

Measurement of fair value of financial instruments

The following valuation technique is used for instruments categorised as Level 3:

Contingent consideration (Level 3)

As of 31 December 2022, the fair value of contingent consideration related to the acquisitions of The Edge and d-Wise which were acquired in March 2021 and April 2021 respectively. The contingent considerations were estimated using a present value technique.

The Edge's contingent consideration of £1.0m fair value was estimated in 2021 based on the approved cash flow projections and forecast discounted at 30.9% to adjust for risk. The probability weighted cash outflows before discounting are £1.0m and reflect management's estimate of a 100% probability that the Edge's target level of profitability will be achieved. The profitability target was confirmed during the period.

Finally, d-Wise's contingent consideration of US\$1.4m (£1.2m) fair value was estimated in 2021 based on the approved cash flow projections and forecast discounted at 18.6% to adjust for risk. The probability weighted cash outflows before discounting are US\$1.5m (£1.2m) and reflect management's estimate of a 100% probability that d-Wise's target level of profitability will be achieved. The profitability target was confirmed during the period.

21. FINANCIAL INSTRUMENTS (CONTINUED)

The reconciliation of the carrying amounts of financial instruments classified as Level 3 is as follows:

	2022 £000	2021 £000
Balance as at 1 January	4,004	316
Arising on business combination	-	3,026
Payment of contingent consideration (including cash and shares)	(2,648)	-
Unwinding discount	542	658
Foreign exchange	262	4
Balance as at 31 December	2,160	4,004

The Group is exposed to various risks in relation to financial instruments. Each of these is disclosed in the table below.

	Carrying amount 2022 £000	Fair value 2022 £000	Level 3 2022 £000	Carrying amount 2021 £000	Fair value 2021 £000	Level 3 2021 £000
<i>Loans and receivables</i>						
Cash and cash equivalents	13,964	13,964	-	15,021	15,021	-
Trade and other receivables	18,345	18,345	-	14,852	14,852	-
Financial assets measured at amortised cost	32,309	32,309	-	29,873	29,873	-
Financial assets measured at fair value	-	-	-	-	-	-
Total financial assets	32,309	32,309	-	29,873	29,873	-
<i>Financial liabilities measured at amortised cost</i>						
Trade payables and accruals	(4,686)	(4,686)	-	(5,037)	(5,037)	-
Financial liabilities measured at amortised cost	(4,686)	(4,686)	-	(5,037)	(5,037)	-
Deferred consideration	(3,605)	(3,605)	-	(7,336)	(7,336)	-
Contingent consideration	(2,160)	(2,160)	(2,160)	(4,004)	(4,004)	(4,004)
Financial liabilities measured at fair value	(5,765)	(5,765)	(2,160)	(11,340)	(11,340)	(4,004)
Total financial liabilities	(10,451)	(10,451)		(16,377)	(16,377)	
Total financial instruments	21,858	21,858		13,496	13,496	

21. FINANCIAL INSTRUMENTS (CONTINUED)

CREDIT RISK

Financial risk management

Management aims to minimise the risk of credit losses. The Group's financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk in respect of cash balances held with banks are only with major reputable financial institutions.

The Group's credit risk is primarily attributable to its trade receivables and the Group has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness. The Group generates external revenue from no customer that individually amounts to more than 10% of the Group revenue. At the 2022 year end the Group had a maximum credit risk exposure of £18.3m (2021: £14.9m).

The amounts presented in the statement of financial position are net of impairment provisions.

The Group's exposure to losses from defaults on trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees to be invoiced and paid annually in advance. Note 16 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

The Group undertakes procedures to determine whether there has been a significant increase in the credit risk of its other receivables, including group balances, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

The concentration of credit risk for trade receivables at the balance sheet date by geographical region was:

	2022 £000	2021 £000
UK	1,586	989
Europe	2,755	2,493
USA	7,217	6,820
China	747	194
Rest of World	809	669
	13,114	11,165

23. FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due.

The Group's objective is to ensure that adequate facilities are available through use of bank overdrafts and leases. The Group manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review, and regular review of working capital and costs.

The Group regularly monitors its available headroom under its borrowing facilities. On 8 April 2022, the Group signed a new financing arrangement which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. As of 31 December 2022, the borrowing facility was undrawn however the relevant covenant calculations have been calculated and considered. The Group had positive cash reserves of £14.0m at the 2022 year end, in addition to the £10.0m undrawn working capital facility, although £3.2m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly.

The following are the contractual maturities of financial liabilities.

2022 Non derivative financial liabilities	Carrying amount £000	Contractual cashflows £000	1 year or less £000	2 to 5 years £000	After 5 years £000
Liabilities relating to right of use assets	1,305	1,305	814	491	-
Trade payables	2,232	2,232	2,232	-	-
Accruals	2,454	2,454	2,454	-	-
Deferred consideration	3,605	3,605	3,605	-	-
Contingent consideration	2,160	2,160	2,160	-	-
	11,756	11,756	11,265	491	-

2021 Non derivative financial liabilities	Carrying amount £000	Contractual cashflows £000	1 year or less £000	2 to 5 years £000	After 5 years £000
Liabilities relating to right of use assets	2,325	2,325	1,077	1,229	19
Trade payables	1,522	1,522	1,522	-	-
Accruals	4	4	4	-	-
Deferred consideration	7,336	7,336	4,276	3,060	-
Contingent consideration	4,004	4,004	2,336	1,668	-
	15,191	15,191	9,215	5,957	19

21. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK

Market risk - Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into Sterling. The currencies giving rise to this risk are primarily US dollars. The Group has both cash inflows and outflows in this currency that create a natural hedge.

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's cash inflows and outflows in a foreign currency.

Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. A 10% decrease in the average value of Sterling against the US dollar would have resulted in an increase in the Group's profit before tax by approximately £0.7m (2021: £0.6m).

The Group's exposure to foreign currency risk is as follows.

2022	Sterling £000	Euro £000	US Dollars £000	Renminbi £000	Swiss Franc £000	Other £000	Total £000
Cash and cash equivalents	1,459	589	8,080	3,181	346	309	13,964
Trade and other receivables	3,198	1,288	10,836	2,049	347	627	18,345
Liabilities relating to right of use assets	(331)	(201)	(506)	(4)	(50)	(213)	(1,305)
Trade payables	(984)	(42)	(731)	(373)	(102)	-	(2,232)
Net exposure	3,342	1,634	17,679	4,853	541	723	28,772

2021	Sterling £000	Euro £000	US Dollars £000	Renminbi £000	Swiss Franc £000	Other £000	Total £000
Cash and cash equivalents	1,476	1,188	6,515	3,535	1,646	661	15,021
Trade and other receivables	3,151	1,295	9,018	474	440	474	14,852
Liabilities relating to right of use assets	(367)	(231)	(1,166)	(27)	(100)	(435)	(2,325)
Trade payables	(841)	(23)	(651)	(1)	(6)	-	(1,522)
Net exposure	3,419	2,229	13,716	3,981	1,980	700	26,025

Interest rate risk

The Group operates an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings.

As of 31 December 2022, the indications are that the UK bank base interest rate could materially change over the next 12 months. During 2022, the UK base rate increased by 3.25 percentage points to 3.5%. On the basis of the Group cash position at 31 December 2022 and assuming no other changes occur (such as material changes in currency exchange rates) a change in interest rates should not have a material impact on net interest income/(expense). Finally as of 31 December 2022, the Group's new financing arrangement which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy was undrawn.

22. RECONCILIATION OF MOVEMENTS OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Notes	Former PDS's shareholders £000	Lease liability £000	Total £000
1 January 2021		-	2,084	2,084
<i>Cash flows</i>				
Repayment of finance cost	9	-	(96)	(96)
Repayment of lease liability	9	-	(963)	(963)
Repayment of former PDS's shareholder loan		(2,387)	-	(2,387)
<i>Non-cash</i>				
Intercompany balance between PDS and Instem PLC		2,387	-	2,387
Acquisitions	9	-	949	949
New leases	9	-	261	261
Interest expense	9	-	96	95
Exchange adjustment	9	-	(6)	(6)
As at 31 December 2021		-	2,325	2,325
1 January 2022		-	2,325	2,325
<i>Cash flows</i>				
Repayment of lease liability	9	-	(1,096)	(1,096)
<i>Non-cash</i>				
Lease modifications	9	-	(83)	(83)
Interest expense	9	-	70	70
Exchange adjustment	9	-	89	89
At 31 December 2022		-	1,305	1,305

23. CURRENT TAXATION

As of 31 December 2022, the Group current tax payable was £0.3m which is the net of tax payable £1.5m and tax receivable £1.2m balance (2021: receivable of £0.1m, net of a payable of £0.8m) representing the amount of income tax payable and receivable in respect of the current and prior years.

The Company current tax receivable is £nil.

24. DEFERRED TAX BALANCES

Deferred tax liabilities as at 31 December 2022

Movements	Accelerated tax depreciation £000	Tax losses £000	Defined benefit liability £000	Other timing differences £000	Total £000
At 1 January 2021	(691)	209	735	(343)	(90)
Foreign exchange differences	1	-	-	13	14
Credit/(charge) to profit or loss for the year	(21)	(267)	(91)	(419)	(798)
Debit to OCI for the year	-	-	(140)	-	(140)
Credit direct to equity	-	-	-	528	528
Debit to goodwill arising on acquisitions during the year	(3,400)	64	-	-	(3,336)
Adjustments in respect of prior years	-	549	-	26	575
At 31 December 2021	(4,111)	555	504	(195)	(3,247)
Foreign exchange differences	2	42	-	(20)	24
Credit/(charge) to profit or loss for the year	376	383	(141)	(339)	279
Debit to OCI for the year	-	-	140	-	140
Credit direct to equity	-	-	-	-	-
Debit to goodwill arising on acquisitions during the year	-	-	-	21	21
Adjustments in respect of prior years	8	576	-	298	882
At 31 December 2022	(3,725)	1,556	503	(235)	(1,901)

Other timing differences are predominantly related to share based payment and capitalised development.

Management have recognised deferred tax assets in relation to tax losses based on forecast profitability of the Group companies concerned.

Unrecognised tax losses not included at 31 December 2022 were £22.0m (2021: £3.0m) due to uncertainty over the timing of the recoverability of these losses.

Tax losses and tax credits for which no deferred tax was recognised are as follows:

Gross Amount				Tax Effected			
Instem Organic £m	d-Wise £m	PDS £m	Total £m	Instem Organic £m	d-Wise £m	PDS £m	Total £m
12	1	8	22	3	0.3	1	4.3

25. POST-EMPLOYMENT BENEFITS

The Group provides post-employment benefits through various defined contribution schemes and a closed UK defined benefit scheme.

Defined contribution pension schemes

The Group pays fixed contributions into independent entities in relation to several retirement plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

Defined benefit pension scheme

The Group also operates a legacy defined benefit pension arrangement called the Instem LSS Pension Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. This scheme was closed to new members with effect from 8 October 2001.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Group must agree with the Trustees of the Scheme the contributions to be paid to meet the Statutory Funding Objective. The future contributions required to meet the Statutory Funding Objective do not currently affect the statement of financial position of the Scheme in these accounts.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 5 April 2020 and the next valuation of the Scheme is due as at 5 April 2023. In the event that the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the current Schedule of Contributions. Conversely, if the position is better than expected, it is possible that contributions may be reduced.

The following Schedule of Contributions has been prepared by the Trustees of the Scheme after obtaining the advice of the Scheme Actuary appointed by the Trustees. The contributions are intended to clear the Scheme deficit by 30 September 2026 and were agreed in June 2021.

Period ended	Total each year £000
31 March 2021	530
31 March 2022	548
31 March 2023	568
31 March 2024	588
31 March 2025	608
31 March 2026	629
30 September 2026	332

The Group currently expects to pay contributions of £518,000 in the year to 31 December 2023 as the £50,000 was already paid in the year to 31 December 2022. The cash contributions have been considered in the future cash flow and going concern review.

The weighted average duration of the defined benefit obligation is expected to be around 15 years.

The Scheme is managed by a Board of Trustees appointed in part by the Group and part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the Scheme, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisors where appropriate.

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

The Scheme exposes the Group to a number of risks:

- Investment risk. The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed a deficit will emerge in the Scheme.

There were no Scheme amendments, curtailments or settlements during the year.

The employer pays the Pension Protection Fund levy each year in respect of the scheme. It is intended that all other expenses associated with the running of the Scheme will be met from the Scheme's assets.

Risk mitigation strategies

The investment manager has previously been instructed as to the permissible ranges for asset allocations as set out in the Scheme's current Statement of Investment Principles. Over the year, the Scheme invested in a portfolio of liability-driven assets, designed to hedge against interest rate and inflation risk.

The net interest on the net defined benefit liability 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.

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

	2022 %	2021 %
Discount rate (pa)	4.80	1.90
Inflation (RPI pa)	3.20	3.10
Inflation (CPI pa)	2.50	2.40
Pension increase (RPI pa)	3.10	3.00
Pension increase (CPI pa)	2.10	2.00
Life Expectancy assumption (number of years from the age of 65)	Years	Years
Male currently aged 45	24.1	24.1
Female currently aged 45	26.0	26.0
Male currently aged 65	23.2	23.2
Female currently aged 65	24.9	24.9
ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS	2022 £000	2021 £000
Interest on pension scheme assets	258	177
Interest on pension scheme liabilities	(294)	(228)
Net finance cost charge	(36)	(51)
ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME/ (EXPENSE)	2022 £000	2021 £000
(Losses)/ gains on assets in excess of interest	(4,443)	1,002
Experience (losses)/ gains on liabilities	(763)	118
Gains/ (losses) from changes to demographic assumptions	7	(322)
Gains from changes to financial assumptions	4,755	577
Administration services	(117)	-
Actuarial (losses)/gains recognised in other comprehensive income/(expense)	(561)	1,375

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	2022 £000	2021 £000
Opening defined benefit obligation	15,997	16,380
Interest on liabilities	294	228
Benefits paid	(1,836)	(238)
Experience loss/(gain) on liabilities	763	(118)
Changes to demographic assumptions	(7)	322
Changes to financial assumptions	(4,755)	(577)
Closing defined benefit obligation	10,456	15,997

CHANGES IN THE FAIR VALUE OF PLAN ASSETS	2022 £000	2021 £000
Opening plan assets	13,983	12,512
Interest on assets	258	177
Return on plan assets less interest	(4,443)	1,002
Company contributions	598	530
Administration services	(117)	-
Benefits paid	(1,836)	(238)
Closing plan assets	8,443	13,983

The actual return on assets was a negative return of £4,185,000 (2021: positive return £1,079,000).

AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2022 £000	2021 £000
Present value of funded obligations	(10,456)	(15,997)
Fair value of plan assets	8,443	13,983
Net pension liability	(2,013)	(2,014)
Related deferred tax asset	503	504
Net pension liability after deferred tax	(1,510)	(1,510)

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

RECONCILIATION OF NET DEFINED BENEFIT LIABILITY	2022 £000	2021 £000
Net defined benefit liability at start	2,014	3,868
Net interest expense	36	51
Remeasurements	561	(1,375)
Employer contributions	(598)	(530)
Net defined benefit liability at end	2,013	2,014

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME/(EXPENSE)	Cumulative 2022 £000	Cumulative 2021 £000
Actual return less expected return on assets	(1,347)	3,096
Experience losses on liabilities	(2,624)	(1,861)
Changes in demographic assumptions	247	240
Changes in financial assumptions	(1,223)	(5,978)
Administration services	(117)	-
Cumulative actuarial loss recognised in the OCI	(5,064)	(4,503)
Actuarial (loss)/gain recognised in the OCI in the period	(561)	1,375

MAJOR CATEGORIES OF PLAN ASSETS AS A PERCENTAGE OF FAIR VALUE OF TOTAL PLAN ASSETS

	2022		2021	
	£000	%	£000	%
Equities	2,815	33	6,127	44
Property	303	4	638	5
Bonds	109	1	123	1
Corporate Bonds	705	8	1,698	12
LDI	1,827	22	3,071	22
Cash	238	3	137	1
Other	2,446	29	2,189	15
	8,443	100	13,983	100

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

The five-year history of experience adjustments is as follows:

	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Present value of defined benefit obligation	(10,456)	(15,997)	(16,380)	(13,773)	(12,655)
Fair value of plan assets	8,443	13,983	12,512	11,969	10,406
Deficit	(2,013)	(2,014)	(3,868)	(1,804)	(2,249)
Experience (losses)/ gains on liabilities	(763)	118	(351)	-	65
Return on plan assets less interest	(4,443)	1,002	-	1,003	(957)

The following sensitivities apply to the value placed on the liabilities:

Adjustments to assumptions Approximate effect on liabilities	£000
DISCOUNT RATE	
+ 0.50% pa	(669)
- 0.50% pa	775
INFLATION	
+ 0.50% pa	552
- 0.50% pa	(511)
MORTALITY	
Life expectancy + 1 year	223
Life expectancy - 1 year	(228)

26. PROVISION FOR LIABILITIES

	2022 £000	2021 £000
At 1 January	291	250
Acquisition	-	41
Increase in provision during the year	1,019	-
Amount used during the year	(1,300)	-
Exchange adjustment	35	-
At 31 December	45	291

As previously announced the Group created a provision of £0.25m in respect of historical contract disputes that arose in 2017 with a maximum exposure of approximately €4.5m. The maximum exposure includes additional claims for consequential losses. During the year an additional provision of €1.2m (£1m) was provided for full and final settlement of this contract dispute.

In October 2022, the Group paid €1.48m (£1.3m), of which its insurer agreed to contribute €0.45m (£0.4m) resulting in a net payment due of approx. €1.0m (£0.9m).

The balance of £0.04m relates to the general provision that PDS provided for warranty and remained unchanged as of 31 December 2022 based on management estimates.

27. SHARE CAPITAL

The share capital of Instem plc consists only of fully paid ordinary shares with a nominal value of 10p per share.

SHARES ISSUED AND FULLY PAID:	2022 No. of shares	2021 No. of shares
Beginning of the year	22,189,856	20,481,909
Issued on exercise of employee share options	217,500	88,667
Share issue on acquisition of The Edge	-	391,920
Share issue on acquisition of d-wise	-	868,203
Share issue on acquisition of PDS	-	359,157
Share issue in relation to deferred and contingent consideration of d-Wise	296,952	-
Total shares issued and fully paid at 31 December	22,704,308	22,189,856

Additional shares were issued during 2022 relating to share-based payments (see note 10 for details on the Group's share-based remuneration).

Share premium

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less fees, commissions and disbursements. Costs of new shares charged to equity amounted to £nil (2021: £nil).

Share premium has also been recorded in respect of the issue of share capital related to employee share-based payment.

28. EARNINGS PER SHARE

Basic and diluted 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 deferred and contingently issuable shares in relation to d-Wise acquisition which could potentially dilute the basic EPS in the future were not included in the calculation of diluted EPS because they are antidilutive for the period of 2021. The deferred and contingently issuable shares in relation to the d-Wise acquisition were settled in April 2022.

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) minus the issue price. The number of the ordinary shares that could have been acquired at their average market price during the period are ignored. However, the shares that would generate no proceeds and would not have effect on profit or loss attributable to ordinary shares outstanding are included.

	2022			2021		
	Profit after tax (£000)	Weighted average number of shares (000's)	Profit per share (pence)	Profit after tax (£000)	Weighted average number of shares (000's)	Profit per share (pence)
Earnings per share - Basic	4,697	22,577	20.8	1,678	21,591	7.8
Potentially dilutive shares (share options)	-	1,109	-	-	1,128	-
Earnings per share - Diluted	4,697	23,686	19.8	1,678	22,719	7.4

28. EARNINGS PER SHARE (CONTINUED)

Adjusted earnings per share

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items, amortisation of intangibles on acquisitions and impairment of goodwill. The adjusted profit after tax has been amended in 2022 to ensure that the foreign exchange movements and the unwinding of the finance liability do not impact and distort the earnings per share calculation.

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

2022			
	Adjusted profit after tax (£000)	Weighted average number of shares (000's)	Adjusted earnings per share (pence)
Earnings per share - Basic	7,403	22,577	32.8
Potentially dilutive shares (share options)	-	1,109	-
Earnings per share - Diluted	7,403	23,686	31.3

2021 (as restated)				2021 (as initially reported)		
	Adjusted profit after tax (£000)	Weighted average number of shares (000's)	Adjusted earnings per share (pence)	Adjusted profit after tax (£000)	Weighted average number of shares (000's)	Adjusted earnings per share (pence)
Earnings per share - Basic	4,633	21,591	21.5	3,704	21,591	17.2
Potentially dilutive shares (share options)	-	1,128	-	-	1,128	-
Earnings per share - Diluted	4,633	22,719	20.4	3,704	22,719	16.3

Reconciliation of adjusted profit before tax:	2022 £000	2021 (as restated) £000	2021 (initially reported) £000
Reported profit before tax	5,473	2,984	2,984
Non-recurring costs	1,208	1,286	1,286
Non-recurring income	(401)	(805)	(805)
Amortisation of acquired intangibles	1,953	1,563	1,563
Impairment of goodwill	107	-	-
Foreign currency exchange (gain)/loss	(932)	44	-
Finance cost on deferred and contingent consideration	771	867	-
Foreign exchange differences on revaluation of inter-group balances	-	-	(18)
Adjusted profit before tax	8,179	5,939	5,010
Tax	(776)	(1,306)	(1,306)
Adjusted profit after tax	7,403	4,633	3,704
Profit after tax	4,697	1,678	1,678

28. EARNINGS PER SHARE (CONTINUED)

	2022 Weighted average number of shares (000's)	2021 Weighted average number of shares (000's)
<i>Weighted average number of shares used as the denominator</i>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	22,577	21,591
<i>Adjustments for calculation of diluted earnings per share:</i>		
Share options	1,109	1,128
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	23,686	22,719

29. CAPITAL AND RESERVES

Share capital

The share capital account represents the par value for all shares issued. The Company has one class of share and each share rank parri passu and carry equal rights.

Share premium account

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares less the costs of new share issues.

Merger reserve

The merger reserve represents -

- the difference between the consideration payable at the date of acquisition, net of merger relief, and the share capital and share premium of Instem Life Science Systems Limited and
- the difference between the nominal value and share issue price of shares issued as consideration in the purchase of Leadscope Inc, The Edge Software Consultancy Ltd, d-Wise Technologies and PDS Pathology Data Systems

Share based payment reserve

The share based payment reserve represents the fair value of shares options periodically awarded to employees and executive directors, which is charged to the statement of comprehensive income.

Translation reserve

The translation reserve incorporates the cumulative net exchange gains and losses recognised on the translation of subsidiary company financial information to the presentational currency of Sterling (£).

Retained earnings

The retained earnings reserve includes the accumulated profits and losses arising from the consolidated 'Statement of Comprehensive Income' and certain items from 'Other Comprehensive Income' attributable to equity shareholders net of distributions to shareholders.

29. CAPITAL AND RESERVES (CONTINUED)

Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to maximise the capital structure of debt and equity so as to minimise its cost of capital. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, share premium, merger reserve, share based payment reserve, translation reserve, retained earnings and net debt as noted below.

Net debt includes short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

The Group has not made any changes to its capital management during the year.

30. CAPITAL COMMITMENTS

There were no capital commitments at the end of the financial year (2021: £nil).

31. RELATED PARTY TRANSACTIONS

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year, the Company traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £2m (2021: £1.2m). The net intercompany balances payable by the Company at the year-end totalled £1.5m (2021: due from £4.4m).

During the year, the Group traded in its normal course of business with shareholders and consultancy businesses in which Directors have a material interest as follows:

KEY MANAGEMENT COMPENSATION:	2022 £000	2021 £000
Group and Company		
<i>Fees for services provided as Non-Executive Directors</i>		
Salaries and short-term benefits	174	141
Employer's national insurance & social security costs	16	15
	190	156
Group		
<i>Executive Directors</i>		
Salaries and short-term benefits	423	412
Post-employment retirement benefits	43	38
Employers' national insurance & social security costs	64	29
Share based payment charge	317	215
	847	694
Group		
<i>Other key management</i>		
Salaries and short-term employee benefits	1,143	1,194
Post-employment retirement benefits	61	56
Employers' national insurance & social security costs	103	97
Share based payment charge	422	428
	1,729	1,775

The Company paid £0.06m (2021: £0.10m) to Instem Ventures Limited for professional consultancy services, a company owned by A Gare, a shareholder. The balance outstanding at the end of the year was £nil (2021: £nil).

Key management are considered to be the Directors together with the Senior Managers of the business.

32. CONTINGENT LIABILITIES

Instem plc has provided a guarantee to its subsidiaries which have taken advantage of the exemption from audit. Under this guarantee, the company has a contingent liability of £8.2m (2021: £21.9m).

33. SUBSEQUENT EVENTS

No adjusting events have occurred between the 31 December reporting date and the date of approval of these financial statements.

The organisational changes, described at the beginning of the Chief Executive's Report reduce the number of business units from four to three and will impact future segmental disclosures.

On 24 February 2023, the Group established an employee benefit trust (EBT) to subscribe for new issue shares or acquire shares in Instem plc in the market as required, in the future, in order to satisfy awards made upon the vesting of employee share schemes.

On 1 April 2023, Instem completed the disposal of Samarind Limited, which was part of the Regulatory Solutions business operating segment. The consideration receivable is up to £1.0m, of which £0.8m was satisfied by cash received on completion plus or minus estimated net cash. The remaining balance of £0.2m is payable contingent on Samarind Limited's future performance and would be payable in cash. The Consolidated financial statements and related notes represent results from continuing operations, there being no discontinued operations in the years presented.

On 15 May 2023, the Group launched Centrus, incorporating all of our existing *in silico* solutions and the ToxHub assets acquired or licensed from the eTRANSafe consortium, as previously described.

DIRECTORS AND ADVISORS

DIRECTORS

D Gare (Non-Executive Chairman)
D M Sherwin (Non-Executive, resigned 31 January 2023)
M F McGoun (Non-Executive)
R Bandali (Independent Non-Executive)
M R Dolson (Independent Non-Executive, appointed 9 January 2023)
P J Reason
N J Goldsmith

SECRETARY

N J Goldsmith

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 **Boehringer
Ingelheim**


charles river

AMGEN



 **GILEAD**



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GSK

AstraZeneca 

Lilly

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