microgen plc

annual report

2014

Directors, Senior Management *and Advisors*

Directors

Martyn Ratcliffe
Executive Chairman
Martyn Ratcliffe was appointed a non-executive director of Microgen plc ("Microgen") on 7 May 1998 and Chairman on 31 July 1998. Mr Ratcliffe is also Executive Chairman of Sagentia Group plc.

Philip Wood
Group Finance Director
Philip Wood was appointed Group Finance Director on 2 January 2007. A Chartered Accountant, Mr Wood spent seven years with AttentiV Systems Group plc and its group companies during which time he, as Group Finance Director, oversaw the group's flotation in 2004 and subsequent acquisition in 2005 by Tieto Corporation.

Peter Bertram
Senior Independent Non-Executive Director
Peter Bertram was appointed as a non-executive director on 3 October 2006 and Chairman of the Audit Committee on 1 May 2007. On 19 April 2011 Mr Bertram was appointed as the senior independent non-executive director. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Bertram is also Chairman of Phoenix IT Group plc and Ten Alps plc.

Vanda Murray OBE
Non-Executive Director
Vanda Murray was appointed as a non-executive director on 1 September 2011 and Chair of the Remuneration Committee on 1 January 2012. Ms Murray was Chief Executive Officer of Blick plc from 2001 to 2004 and is currently non-executive director of Bunzl plc, Chemring Group plc, Exova Group plc, Fenner plc and The Manchester Airports Holdings Limited.

Peter Whiting
Non-Executive Director
Peter Whiting was appointed as a non-executive director on 2 February 2012. Mr Whiting has over twenty years' experience as an investment analyst, specialising in the software and IT services sector. He joined UBS in 2000, led the UK small and mid-cap research team and was Chief Operating Officer of UBS European Equity Research from 2007 to 2011. Mr Whiting is currently non-executive director at FDM Group (Holdings) plc.

Senior Management

Tom Crawford
Managing Director, Aptitude Software
Tom Crawford joined Microgen in 2003 and was appointed Head of Aptitude Software USA operations in 2010 before being promoted to Managing Director of Aptitude Software in 2013, a role that divides his time between Boston and London.

Simon Baines
Managing Director, Financial Systems
Simon Baines joined Microgen in 2010 as Managing Director of the Financial Systems business, prior to which he worked in private equity covering financial services technology companies.

Anjum O'Neill
Company Secretary and Group Legal Counsel
Anjum O'Neill was appointed as Company Secretary on 7 October 2008. Mrs O'Neill joined the Group in 2004 and has held the role of Group Legal Counsel since 1 March 2007. She is a Solicitor of England and Wales.

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
1 Embankment Place
London WC2N 6RH

Financial Advisors and Stockbroker

Investec Bank plc
2 Gresham Street
London EC2V 7QP

Financial Public Relations

FTI Consulting LLP
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Registered Office

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128 Queen Victoria Street
London EC4V 4BJ

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Chairman's Statement

The Group reports results in line with the Board's expectations together with satisfactory progress by the Group's two operating businesses on their strategic plans. With continued strong cash generation and very high cash balances, the Board has decided to return a further £20 million to shareholders. Since the cash return programme was started in October 2008, upon approval/completion of this capital distribution, Microgen will have returned a total of £70 million to shareholders by a variety of mechanisms representing 190% of the October 2008 market capitalisation.

In accordance with the strategy for the Aptitude Software business, investment was significantly increased during the course of 2014 in order to pursue the evolving Big Data opportunity. Product investments included new applications and Hadoop capability while sales and marketing infrastructure was increased in both the UK and the USA. Benefitting from this investment, Aptitude broadened its market penetration into the telecoms sector with a large North American telecommunications company contracting for the Aptitude Accounting Hub and, subsequent to the year end, the Aptitude Revenue Recognition Engine.

The Financial Systems business focussed its resources on the wealth management sector in line with its defined strategic objectives. The business continues to experience good demand for Microgen 5Series, its leading wealth management product for trust and fund administration, signing 10 contracts with new customers in 2014. Furthermore, towards the end of the year, the business extended its presence in the sector through the acquisition of Unity Software Limited, a Jersey-based provider of similar wealth management software. The business also maintained its position within the payments market whilst the applications management operations declined in line with management expectations. Overall, Financial Systems delivered a substantial increase in return on capital employed following the change in capital structure in 2013.

The Board is recommending a final dividend of 2.2 pence per share (2013: 2.2 pence) representing a full year dividend of 3.3 pence (2013: 3.3 pence in addition to a special dividend of 5.2 pence). Subject to shareholder approval, the proposed final dividend will be payable on 15 June 2015 to shareholders on the register at the close of business on 14 May 2015.

Capital Return

At 31 December 2014, the Group had gross cash of £40.9 million (2013: £40.2 million) and net funds of £24.6 million (2013: £20.9 million). During 2014, in addition to the add-on acquisition completed in the Financial Systems business, a number of potential larger opportunities were evaluated. However, while the Board continues to evaluate add-on acquisitions, in the current market environment it is not anticipated that attractive larger opportunities to deploy the Group's substantial cash resources will arise in the immediate future. Furthermore, as a company listed on the main market of the London Stock Exchange, the UKLA class tests mean that any material transaction is likely to require shareholder approval and the Board now consider that, if required, it would be more appropriate to raise funds for major acquisitions at that time.

As a result, the Board is proposing to return to shareholders approximately £20 million in cash, equivalent to 27 pence per share, ("Return of Value") by way of a B and C share scheme ("Scheme"). The Scheme provides shareholders (other than certain overseas shareholders) with a choice of receiving the cash in the form of income or capital provided that the Return of Value is completed prior to 6 April 2015. The Return of Value will be accompanied by a proportional share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares. An announcement providing further details of the Return of Value has been released today and a circular will be sent to shareholders shortly outlining the terms of the return. It is anticipated that the Return of Value will be completed by 1 April 2015.

Board Succession

In October 2015 Peter Bertram will have completed nine years' service as a non-executive Director and will therefore be retiring from the Board at the Annual General Meeting ("AGM") in 2016. A new non-executive director to chair the Audit Committee will be appointed in due course. Mr Bertram will be standing for re-election at the AGM in 2015 and this will be for the one year period.

Martyn Ratcliffe has advised the Board that, following the further substantial return of cash proposed to shareholders and with the strategies and management of the two operating businesses now well established, he will be retiring from the Board by the end of the year. Mr Ratcliffe has been chairman of Microgen for 16 years and wishes to pursue a new challenge. Over the coming months, the Board will consider appropriate succession to enable a smooth transition later in the year.

Martyn Ratcliffe
Chairman

24 February 2015

Aptitude Software
Report

The Aptitude Software business provides an enterprise level Application Platform to deliver solutions, typically where customers require very rapid processing of very high volume (often referred to as "Big Data") complex, business event-driven transactions. The Aptitude software continues to be developed at the Aptitude Technology Centre in Wroclaw, Poland. The business generates revenue from this software through a combination of licence fees (primarily annual recurring licences), software maintenance/support and professional services.

The Board's objective of increasing software revenue, both in absolute terms and as a proportion of revenue, is the leading performance metric for the business. Aptitude's software revenue increased in 2014 by 12% to £8.8 million (2013: £7.9 million). (Software revenue includes annual and initial licence fees, software maintenance and support). Services revenue, the growth of which is not a strategic objective, was £6.6 million (2013: £6.8 million). This includes £0.6 million (2013: £0.1 million) of revenue generated by Aptitude Software's recently established application development team based at the Aptitude Technology Centre in Wroclaw, Poland. This application development team enables Microgen to provide a broader and lower-cost resource pool facilitating the increased adoption of the Aptitude software.

Overall revenue increased to £15.4 million (2013: £14.7 million). Whilst the majority of revenues are invoiced in Pounds Sterling, the Aptitude Software business does have exposure to US Dollars and due to the exchange rate volatility during 2014, this had a negative revenue variance of £0.2 million compared to the prior year. The strategic investment programme in the Aptitude business has led to operating margins being lowered to 8% (2013: 19%) delivering an operating profit of £1.2 million (2013: £2.8 million); both parameters are in line with management expectations and consistent with the defined strategy.

During the course of 2014 the business signed seven software contracts with new and existing customers. These included a strategic entry into the telecommunications sector with a contract for the Aptitude Accounting Hub, anticipated to generate revenues in excess of $5 million over its expected term and, subsequent to the year end, a further contract for the Aptitude Revenue Recognition Engine, an Aptitude-based finance application which addresses the new IFRS 15 accounting requirement.

Since the 2013 strategic review, investment has also been increased in product development and the latest version of the Aptitude technology platform, released in October 2014, further extends the Aptitude Big Data processing capabilities enabling users to build data-driven applications deploying Aptitude's in-memory, in-database and in-Hadoop processing. In addition, three Aptitude-based applications were released in 2014: Aptitude Allocation Engine currently being implemented by a major financial services client; Aptitude Revenue Recognition Engine with a charter client contracted; and the Compact Edition of the Aptitude Accounting Hub, a pre-configured Aptitude-based divisional accounting hub and sub-ledger. Pursuant to the increased product investment, research and development has increased to £4.3 million (2013: £3.5 million). All research and development costs are expensed as incurred.

In summary, while the full benefits of the Aptitude investment programme will take time, good strategic progress was achieved in 2014 and operating performance was in line with management expectations.

Tom Crawford
Managing Director, Aptitude Software

24 February 2015

The Financial Systems business has a well-established customer base with an increasing focus on the wealth management sector. Revenues are generated through a combination of software licence fees (primarily annual recurring licences), software maintenance/support and professional services. The strategy of the business is to increase the proportion of revenue derived from the wealth management sector through both organic growth and add-on acquisitions while continuing to explore opportunities in other financial services sectors.

Revenue from wealth management products represents 55% (2013: 53%) of overall revenue at £8.0 million (2013: £8.0 million). The Microgen 5Series product continues to be well received by the market with 10 new business wins in the year. Revenue from the payment software product remains in line with last year at £1.3 million whilst the Application Management business, now incorporating the other financial services product categories, reported revenue in line with management expectations at £5.1 million (2013: £5.8 million).

Overall reported revenue was £14.4 million (2013: £15.1 million), in line with expectations. Recurring revenue accounts for 81% (2013: 79%) of total revenue, with 24% being generated by the top 5 clients (2013: 28%). Benefitting from continued tight cost control, the business reported strong adjusted operating profits of £7.5 million (2013: £8.1 million) representing an adjusted operating margin of 52% (2013: 54%). Operating profit on a statutory basis was £7.1 million (2013: £7.8 million). Non-underlying operating costs in 2014 include £0.2 million related to acquisition and associated restructuring costs, together with a cost of £0.2 million related to the planned closure of the Financial Systems' Cape Town support office in 2015.

The acquisition of Unity Software Limited ("Unity") was completed in December. Unity is a Jersey-based provider of wealth management software for the offshore finance industry whose product provides similar functionality to Financial Systems' leading trust and fund administration product, Microgen 5Series. The acquisition provides the Financial Systems business with an increased client and recurring revenue base in one of its core sectors together with an office in Jersey, a key geographical market for its products. The consideration for Unity was £1.3 million payable on completion. Due to the timing of the acquisition there is minimal impact on Financial Systems' 2014 financial performance.

Benefitting from the loan and capital reorganisation established in 2013, the Return on Capital Employed ("ROCE") increased to 42% (2013: 30%) as the business received the full year benefit from the more efficient capital structure. The loan outstanding at 31 December 2014 was £16.3 million (2013: £19.3 million).

In summary, the Financial Systems business continues to benefit from its high level of recurring revenues and the business is confident the adoption of the Microgen 5Series wealth management product will continue to progress in 2015. A number of further add-on acquisitions in the wealth management sector continue to be evaluated, although the Board remains prudent and, as always, there can be no certainty that any acquisitions will be completed.

Simon Baines
Managing Director, Financial Systems

24 February 2015

Group Financial Performance and
Finance Director's Report

Value to shareholders is derived from the aggregation of the performance of the operating businesses. The Group results are therefore provided for statutory purposes but in isolation provide minimal additional perspective. Throughout this statement adjusted operating profit and margin excludes non-underlying operating costs, unless stated to the contrary.

Revenue for the year ended 31 December 2014 was £29.8 million (2013: £29.8 million) producing a reduced adjusted operating profit of £7.4 million (2013: £9.1 million) in line with the investment strategy in the Aptitude Software business. Operating profit on a statutory basis was £6.2 million (2013: £8.7 million). Group overhead costs are £1.3 million (2013: £1.9 million). The Group reported a profit for the year attributable to equity shareholders of £4.1 million (2013: £6.4 million). In accordance with IFRS, the Board has continued to determine that all internal research and development costs are expensed as incurred and therefore the Group has no capitalisation of development expenditure. The overall group expenditure on research, development and support activities in 2014 was £6.5 million (2013: £5.7 million) reflecting the investment in the Aptitude Software business. Headcount at 31 December 2014 was 257 including contractors and associates (31 December 2013: 228).

On a constant currency basis overall revenue increased to £30.2 million (2014 reported: £29.8 million; 2013 reported: £29.8 million). Whilst the majority of the Group's revenue is invoiced in Pounds Sterling, £3.7 million of the revenue was invoiced in US Dollars at an average exchange rate of 1.64 (2013: £4.1 million at 1.56) and £1.0 million was invoiced in South African Rand at an average exchange rate of 17.85 (2013: £1.3 million at 15.22). It is Microgen's policy to hedge foreign exchange cash flows once the size and timing of transactions can be predicted with sufficient certainty. To date only the costs in relation to the Aptitude Technology Centre in Poland are hedged but in light of the changes in the business the Board continues to monitor whether it is appropriate to hedge other currencies.

Non-underlying operating costs of £1.2 million include £0.8 million in respect of share options granted in 2013 and £0.4 million in respect of the Financial Systems business. Details of Financial Systems' non-underlying operating costs are summarised in the relevant section. The total tax charge of £1.7 million (2013: £2.3 million) includes a non-underlying tax cost of £0.4 million in relation to the planned closure of the Financial Systems' Cape Town support office in 2015. The Group's tax charge benefitted from the recognition of £0.2 million (2013: £0.1 million) tax losses in the year. The deferred tax asset in relation to taxable trading losses represents only £0.2 million (2013: £0.1 million) of the overall deferred tax asset of £0.8 million (2013: £0.8 million). After adjusting for the effect of non-underlying and other items, the Group's tax charge represents 22.5% of the Group's adjusted profit before tax (2013: 25.2%) which is the tax rate used for calculating the adjusted earnings per share. Adjusted earnings per share for the year ended 31 December 2014 was 7.2 pence (2013: 8.3 pence) with basic earnings per share 5.5 pence (2013: 7.9 pence).

The Group has a strong balance sheet with net assets at 31 December 2014 of £56.5 million (2013: £54.4 million), including cash at 31 December 2014 of £40.9 million (2013: £40.2 million), and net funds at 31 December 2014 of £24.6 million (2013: £20.9 million). Continuing to be a focus of the Group, cash conversion (measured by cash generated from operations as a percentage of operating profit adjusted for the non-underlying cost of share based payments) was 142% in the year (2013: 92%).

Philip Wood
Group Finance Director

24 February 2015

The directors of Microgen plc (the "Company") present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2014.

Results and Dividends

The results for the year are set out in the financial statements and notes that appear on pages 46 to 91. As explained in the Chairman's Statement, the directors propose the payment of a final dividend of 2.2 pence per share, making a total of 3.3 pence per share for the year (2013: 3.3 pence in addition to a special dividend of 5.2 pence). The proposed final dividend will be paid on 15 June 2015, subject to shareholder approval, to shareholders on the register at 14 May 2015.

The ordinary dividends paid in 2014 totalled £2.5 million (2013: £2.7 million in addition to a special dividend of £4.3 million paid in May 2013).

Principal Activities

The Company is the corporate parent of technology businesses, operated as independent business units. The Group's services are currently provided through two operating businesses which are detailed within the reports on pages 4 and 5.

Key Performance Indicators

The Key Performance Indicators are set for each of the Group's two operating businesses and can be found in the reports on pages 4 and 5. The Key Performance Indicators for the Financial Systems business are Adjusted Operating Profit; Return on Capital Employed; Recurring Revenue; and growth in the Wealth Management sector. The Key Performance Indicators for the Aptitude Software business are Revenue Growth and Recurring Software-based Revenue Growth.

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. As detailed on page 16 risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate such risks where feasible. The key business risks for the Group are set out in the table on pages 9 and 10.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 of the Group and the Company and of the 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the directors, whose names and functions are listed at the front of this report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces. A description of the principal risks and uncertainties of the Group is set out on pages 9 and 10.

Table detailing Principal Risks and Uncertainties

Major Risks and Uncertainties	Explanation	Mitigating Action
Demand for the Group's products may be adversely affected if economic and market conditions are unfavourable	Adverse economic conditions worldwide can contribute to slowdowns in the Information Technology spending environment and may impact the Group's business resulting in reduced demand for its products as a result of decreased spending by customers and increased price competition for the Group's products. The Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the directors' control.	The Group's preferred annual licence fee model and recurring revenue provides some resilience against the full effects of market deterioration. Additionally, the Group operates in multiple geographic regions and, while it has a material exposure to the financial services sector, operates in a number of business sectors.
If the Group does not expand or enhance its product offerings or respond effectively to technological change, the business may be negatively affected	The Group's future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address customer requirements in a cost effective manner. If the Group does not expand or enhance its product offerings or respond effectively to technological change, its business may be negatively affected. Additionally, there is a risk that the Group's technological approach will not achieve broad market acceptance or that other technologies or solutions will supplant the Group's approach. Some of the Group's markets are characterised by rapid technological change, frequent introduction of new products, changes in customer requirements and evolving industry standards.	The development of new products and enhancement of existing ones is overseen by monthly forums which are attended by senior managers from relevant functions of the business.
There is substantial competition in the Group's markets which could adversely affect the Group	Some of the markets for the Group's products are competitive, rapidly evolving and subject to rapid technological change. As a result the Group expects competition to persist, intensify and increase in the future. There are no substantial barriers to entry into these markets and some of the Group's competitors are large organisations with far greater financial resources than Microgen. The Group's ability to compete is dependent upon many factors within and beyond the Group's control, including (a) timing and market acceptance of new solutions and enhancements to existing solutions developed by the Group and its competitors (b) performance, ease of use and reliability of the Group's products (c) price (d) customer service and support and (e) sales and marketing efforts.	Where appropriate the Group performs product development and marketing activities to improve the competitiveness of its products. In addition significant proposals are reviewed by senior managers and, if appropriate, the Board.
The Group's products have lengthy sales and implementation cycles, which could adversely affect the Group's business	Sales of the Group's software products may require the Group to engage in a lengthy sales effort, and these lengthy periods or delays in customer deployment of a product could materially adversely affect the Group's operating results or financial condition. The Group's sales efforts include significant education of prospective customers regarding the use and benefits of the Group's products. As a result, the sales cycle for the Group's products varies. In addition, the implementation of the Group's products involves a significant commitment of resources by customers over an extended period of time. The Group's sales and customer implementation cycles may be subject to a number of potential delays. These include delays related to product development and implementation as well as delays over which the Group has little or no control, including (a) customers' budgetary constraints (b) internal acceptance reviews (c) customers' purchasing processes (d) the complexity of customers' technical needs and (e) changing customer requirements.	Business processes in support of each stage in the major contract life cycle (bid, in life, renewal and termination) are well established. All significant proposals and contracts are subject to review by senior managers and, if appropriate, the Board.
The Group's operating businesses are dependent on a number of major clients and contracts	A significant part of the revenue of the Group's operating businesses may be derived from large contracts. Loss of or reduction in revenue from any one or more of these clients (either as a result of external factors or other factors such as performance on contracts) as well as any expiry without renewal or delay of these contracts could adversely affect the Group's business and results of operations.	Managers of the Group regularly meet with major clients to identify any factors which may, if not addressed, result in loss of revenue. Any significant issues are reported to the senior managers and, if appropriate, the Board. The Group continues to aim to expand its client base to reduce its dependency on any one client.
Potential future acquisitions by the Group may have unexpected material adverse consequences	As detailed in the reports on pages 2 and 5 acquisitions are part of the strategy for the Group as a whole and the Financial Systems business in particular. Acquisitions involve numerous risks which may have unexpected adverse material consequences.	Due diligence is performed when potential acquisitions are identified and all acquisitions require Board approval.
If the Group loses its key personnel or cannot recruit additional personnel, the Group's business may suffer	The Group's success greatly depends on its ability to hire, train, retain and motivate qualified personnel, particularly in sales, marketing, research and development, consultancy services and support. The Group faces significant competition for individuals with the skills required to perform the services the Group will offer. If the Group is unable to attract and retain qualified personnel it could be prevented from effectively managing and expanding its business.	The Remuneration Committee regularly reviews the Group's compensation policies to endeavour to ensure that it can continue to attract, motivate and retain qualified personnel.

Table detailing Principal Risks and Uncertainties (continued)

Other Risks and Uncertainties	Explanations	Mitigating Action
Claims by others that the Group's products or brands infringe on their intellectual property rights could be costly to defend and could harm the Group's business	The Group may be subject to claims by others that the Group's products or brands infringe on or misappropriate their intellectual property or other property rights. These claims, whether or not valid, could require the Group to spend significant sums in litigation, distract management attention from the business, pay damages, delay or cancel product shipments, rebrand or re-engineer the Group's products or acquire licences to third party intellectual property. In the event that the Group needs to acquire a third party licence, the Group may not be able to secure it on commercially reasonable terms, or at all.	The Group's legal function regularly reviews methods by which it can protect its own intellectual property rights and avoid infringing the intellectual property rights of third parties. This has resulted in both the registration of trade marks and patent applications where considered appropriate.
The Group's reputation as a quality professional service provider may be adversely affected by any failure to meet its contractual obligations, customer expectations or agreed services levels	The Group's ability to attract new customers or retain existing customers is largely dependent on its ability to provide reliable high quality products and services to them and to maintain a good reputation. Because many of the engagements of the Group involve projects that are critical to the business operations and information systems of clients, the failure or inability of the Group to meet a client's expectations could have an adverse effect on the client's operations and could result in damage to the reputation of the Group. Certain contracts may provide for a reduction in fees payable by the client if service levels fall below certain specified thresholds, thus potentially reducing or eliminating the profit margin on any particular contract. If the Group fails to meet its contractual obligations or perform to client expectations, it could be subject to legal liability or damage to its reputation and the client may ultimately be entitled to terminate the contract.	The Group employs highly skilled personnel and has business processes in place to endeavour to ensure that any lapse is quickly identified and addressed. In addition, significant issues are reported to senior managers and, if appropriate, the Board.
The Group's software products may contain undetected errors and have dependency upon integration with third party products	The Group's products involve sophisticated technology that perform critical functions to highly demanding standards. Software products as complex as those offered by the Group might contain undetected errors or failures. If flaws in design, production, assembly or testing of the Group's products (by the Group or the Group's suppliers) were to occur, the Group could experience a rate of failure in its products that would result in substantial repair, replacement or service costs and potential liability and damage to the Group's reputation. The Group will not be able to be certain that, despite testing by the Group and by current and prospective customers, flaws will not be found in products or product enhancements. Any flaws found may cause substantial harm to the Group's reputation and result in additional unplanned expenses to remedy any defects, and liability stemming therefrom, as well as a loss in revenue and profit. In addition, third party products and databases have been included in or integrated with the Group's products under licences granted to the Group or its customers. If any such licence was to expire without renewal or be otherwise terminated, the Group or the relevant customer would need to cease use of, and remove or disintegrate, the relevant third party product or database which could be costly, time-consuming and cause significant disruption to the Group's business. Any such removal or disintegration of third party products or databases would necessitate changes to, and/or the re-engineering of, the Group's products which could also be costly, time-consuming and cause significant disruption to the Group's product development strategies and otherwise adversely affect the Group's business. Even if such third party licences are not terminated, the Group's reliance on third party products or databases could limit and/or adversely affect its ability to control the future development of its own products.	Development activities including software quality and integration with third party products and databases are reviewed in regular monthly meetings with senior managers. The Group's software testing processes are also well established.
The Financial Systems business may not be able to comply with its obligations under its loan agreements	The Financial Systems business has a loan secured solely on its assets. The loan agreement has a number of obligations and financial covenants that, if not complied with, may lead to default.	The Board approved the terms of the loan and regularly monitors forecast adherence to financial covenants. Included within the loan agreement is the ability of the Group to cure any financial covenant breaches on a limited number of occasions. To mitigate the interest rate risk associated with the loan the Financial Systems business of the Group has entered into an interest rate swap which effectively fixes the interest payable on the loan to 3.24% per annum.

Going Concern

The directors, having made appropriate enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Employment Policies and Gender Diversity

The Group is committed to offering equal employment opportunities and its policies are designed to attract, retain and motivate the best staff regardless of gender, race, colour, religion, ethnic or national origin, age, marital status, disability, sexual orientation or any other conditions not relevant to the performance of the job, who can demonstrate that they have the necessary skills and abilities. The Group gives proper consideration to applications for employment when these are received from disabled persons and will employ them in posts whenever suitable vacancies arise. Staff who become disabled will be retained whenever possible through retraining, use of appropriate technology and making available suitable alternative employment.

The following table reports on the gender diversity within the Group's workforce at 31 December 2014:

	Board diversity		Top leadership diversity		Total workforce diversity	
	2014	2013	**2014**	2013	**2014**	2013
Men	**4**	4	**11**	11	**195**	173
Women	**1**	1	**3**	3	**62**	55
Men %	**80%**	80%	**79%**	79%	**76%**	76%
Women %	**20%**	20%	**21%**	21%	**24%**	24%

The Group encourages the participation of all employees in the operation and development of the business and has a policy of regular communications including overviews of the Group's financial performance. The Group incentivises employees and senior management through the payment of bonuses linked to performance objectives, together with the other components of remuneration detailed in the Directors' Remuneration Report.

Environmental Policy

As a supplier of software solutions the Group's operations do not have a significant impact on the environment. The Group has no manufacturing facilities and its premises exclusively comprise offices. Any obsolete office equipment and computers are resold or recycled to the extent practicable. The Group has recycling facilities in all of its offices and use of waste paper is minimised by promoting a paperless process and downloadable software products. However the Group recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to:

- comply with relevant environmental legislation;
- reduce waste and, where practicable, re-use and recycle consumables;
- dispose of non-recyclable items in an environmentally friendly manner;
- minimise the consumption of energy and resources in the Group's operations; and
- reduce the environmental impact of the Group's activities and where possible increase the procurement of environmentally friendly products.

Greenhouse Gas Emissions

The Company complies with the greenhouse gas ("GHG") emissions reporting requirements of The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. The Company reports all material GHG emissions, wherever possible using 'tonnes of CO_2-equivalent' ("tCO_2e") as the unit, to account for all GHGs which are attributable to human activity, as defined in section 92 of the Climate Change Act 2008(a). Emissions data is reported for the Group's operations in the UK, Poland, Guernsey, the USA and South Africa. The methodology used to compile this data is in accordance with the requirements of the following standards: the World Resources Institute's Greenhouse Gas Protocol (revised version); Defra's Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance (June 2013) and ISO 14064 – part 1.

Material GHG emissions from business activities in 2014 totalled 990 tCO_2e (2013: 1,009 tCO_2e), consisting of:

- 197 tCO_2e (2013: 246 tCO_2e) from the combustion of fuel and the operation of any facilities; and
- 793 tCO_2e (2013: 763 tCO_2e) from the purchase of electricity, heat, steam or cooling by the Group for its own use.

	Emissions source	**tCO_2e 2014**	**tCO_2e 2013**
CO_2e from the combustion of fuel and the operation of any facilities	Natural gas	155	126
	Refrigerant	40	118
	Owned vehicles	2	2
CO_2e from the purchase of electricity, heat, steam or cooling by the company for its own use	Purchased electricity	793	763
	Total	**990**	**1,009**

Carbon intensity ratio for this reporting period was 33.1 tCO_2e (2013: 33.8 tCO_2e) per £1,000,000 turnover.

Where it has not been practical to gather data on energy use for the Group's smaller offices typical energy consumption figures have been used. In addition, a CO_2 equivalent conversion factor is not available for all locations so a CO_2 only factor is used for those affected locations.

The Group's financial reporting year is the calendar year, however the Group has set its greenhouse gas emissions reporting period back by a quarter to facilitate data collection. Therefore, the reporting period for greenhouse gas emissions is 1 October 2013 to 30 September 2014. The Company reports on sources of GHG over which operational control is held and which are associated with the business activities covered in this Report of the Directors.

Donations

No charitable donations were made in the year by the Company and its subsidiaries (2013: £1,000).

Substantial Shareholdings

In accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, as at 24 February 2015, the Company had been advised of the following notifiable interests in its voting rights:

	Number of shares	% Issued Share Capital
Aberforth Partners LLP*	16,027,814	21.48
Schroders plc**	15,210,297	20.39
P F and C C M Barbour***	6,805,327	9.12
M R Ratcliffe	5,294,524	7.10
The Wellcome Trust Limited****	4,038,879	5.41
Standard Life Investments Limited	3,647,396	4.89
Hargreave Hale Limited	3,577,000	4.79
Invesco Limited	3,229,739	4.33
L G Crisp and Mrs H Crisp	2,726,602	3.65
Herald Investment Management Limited	2,525,000	3.38

* Included within Aberforth Partners LLP's interest are 7,548,531 shares (10.12 per cent.) held by Aberforth Smaller Companies Trust plc; 1,766,000 shares (2.37 per cent) held by Aberforth Geared Income Trust LLP; 1,196,872 shares (1.60 per cent.) held by Aberforth UK Small Companies Fund and a further 5,516,411 shares (7.39 per cent.) for which it does not have access to the voting rights.

** Included within Schroders plc's interest are 3,806,692 shares (5.10 per cent.) held by Trustees of the Mineworkers Pension Scheme Limited and 2,788,605 shares (3.74 per cent.) held by British Coal Staff Superannuation Scheme.

*** CCM Barbour holds 2,764,531 of the voting rights of these shares and PF Barbour holds 1,250,000 of the voting rights of these shares. Both CCM Barbour and PF Barbour are interested in a further 2,790,796 shares however neither have any voting rights in these shares.

**** The 4,038,879 shares (5.41%) held by The Wellcome Trust Limited are included within the 16,027,814 shares (21.48%) which Aberforth Partners LLP is interested in. Aberforth Partners LLP does not have any access to the voting rights of the shares held by The Wellcome Trust Limited and therefore these shares are included within the 5,516,411 (7.39%) shares disclosed by Aberforth Partners LLP for which it does not have access to the voting rights.

The Takeovers Directive

The Company has one class of share capital, ordinary shares. All the shares rank pari passu. There are no special control rights in relation to the Company's shares.

Under the Company's share option schemes, a change of control of the Company following a takeover bid would be considered a vesting event. This would allow the exercise of awards subject to the relevant performance conditions being satisfied. There are a small number of customer contracts which include a change of control clause. Three senior managers have change of control agreements which increase the notice receivable by one individual from 3 to 6 months and the other two individuals from 6 to 12 months in the event of a change of control.

Repurchase of Own Shares

At the Annual General Meeting held on 28 April 2014 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 7,449,850 ordinary shares of 5p each. Such purchases could be made at no more than 5% above the average of the middle market quotations derived from the London Stock Exchange daily official list on the five business days prior to the date of purchase, nor less than 5p each. No shares have been purchased under this renewed authority. A resolution to give the Directors further authority for the Company to purchase its own shares is to be proposed at the forthcoming General Meeting on 18 March 2015 and renewed at the Annual General Meeting on 18 May 2015.

Significant Contracts

There did not exist at any time during the year any contract involving the Company or any of its subsidiaries in which a director of the Company was or is materially interested or any contract which was either a contract of significance with a controlling shareholder or a contract for the provision of service by a controlling shareholder. Related party transactions are disclosed on page 91.

Directors

Details of directors who have held office during the year and up to the date of signing these financial statements are given below:

Martyn Ratcliffe
Philip Wood
Peter Bertram
Vanda Murray
Peter Whiting

Biographical details of the current directors are given on the inside front cover of this Annual Report. At the forthcoming Annual General Meeting Mr Wood and Mr Bertram, who retire by rotation, will stand for re-election. Mr Bertram has advised the Board he will not stand for re-election at the 2016 Annual General Meeting at which time his length of service will have exceeded nine years. The Board expects to announce the appointment of a new non-executive director in due course.

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained at article 138 of the Company's articles of association. Pursuant to this article 138, the Company has granted indemnities for the benefit of current and future directors of, and the Company Secretary of, the Company in respect of liabilities which may attach to them in their capacity as directors of, or Company Secretary of, the Company to the extent permitted by law and also committing to maintain directors' and officers' insurance cover. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2014 and continue in force, in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors (or Company Secretary).

Treasury and Foreign Exchange

The Group has in place appropriate treasury policies and procedures, which are approved by the Board. The treasury function manages interest rates for both borrowings and cash deposits for the Group and is also responsible for ensuring there is sufficient headroom against any banking covenants contained within its credit facilities, and for ensuring there are appropriate facilities available to meet the Group's strategic plans.

In order to mitigate and manage exchange rate risk, the Group routinely enters into forward contracts in respect of monthly transactions with the Group's Polish development organisation. The Group continues to monitor exchange rate risk in respect of other foreign currency exposures.

In order to mitigate and manage interest rate risk the Group has in place an effective interest rate hedge to manage exposure on borrowings. Interest rate swaps are used as cash flow hedges of future interest payments, which have the effect of increasing the proportion of fixed interest debt.

These treasury policies and procedures are regularly monitored and reviewed. It is the Group's policy not to undertake speculative transactions which create additional exposures over and above those arising from normal trading activity.

See page 60 for further information on the Group's management of financial risk.

Creditor Payment Policy

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made in line with these terms, subject to the terms and conditions being met by suppliers.

The Company has trade creditors of £13,000 at 31 December 2014 (2013: £265,000).

At 31 December 2014, for the Group the average number of days of annual purchases represented by year end creditors was 25 days (31 December 2013: 37 days).

Auditors and Disclosure of Information to Auditors

As far as the directors are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditors are unaware and each of the directors have taken 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 auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Corporate Governance

The Group's statement on corporate governance is included in the Corporate Governance Statement on pages 16 to 22, and is incorporated into this Report of the Directors by reference.

Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 am on 18 May 2015 at Old Change House, 128 Queen Victoria Street, London EC4V 4BJ. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

By Order of the Board

Anjum O'Neill
Company Secretary

24 February 2015

Corporate Governance
Statement

Statement of Compliance

The Group has applied the main principles set out in the UK Corporate Governance Code ("Code"). A full statement of compliance with the Code's main principles of the Code of Best Practice is on pages 21 to 22.

The Company has complied with the Code throughout the year ended 31 December 2014, other than the exception stated as follows:

A.2.1 – Chairman and Chief Executive – The Corporate Governance Code requires that the roles of Chairman and Chief Executive should not be exercised by the same individual. Mr Ratcliffe was re-appointed to the role of Executive Chairman on 29 October 2013. The Board considers that the combined role is in the interest of shareholders due to the Group's operating businesses being managed by the Managing Directors and associated management teams of each business with the Group roles providing a holding company function, including corporate governance, corporate/strategic direction and operational oversight. The Board will maintain a majority of independent non-executive directors ensuring continued robust corporate governance.

Board of Directors

The Board of Directors meets regularly to review strategic, operational and financial matters, including proposed acquisitions and divestments, and has a formal schedule of matters reserved to it for decision. It approves the interim and preliminary financial statements, the annual financial plan, significant contracts and capital investment in addition to reviewing the effectiveness of the internal control systems and business risks faced by the Group. Where appropriate, it has delegated authority to committees of directors. Information is supplied to the Board in advance of meetings and the Chairman ensures that all directors are properly briefed on the matters being discussed. The Board Meetings are also attended by the Managing Directors of each of the operating businesses who provide detailed presentations and updates on the performance of their business.

The Chairman is primarily responsible for management of the Board, corporate strategy and development and ensuring effective communication with shareholders. The Managing Directors of each operating business are responsible for managing their respective businesses.

Non-executive directors are appointed for specified terms, up to a maximum of three years, and reappointment is not automatic. There is a formal selection process to appoint non-executive directors and a separate Nomination Committee was formed in 2001. Mr Bertram is the senior independent non-executive director. The Board considers that all of the non-executive directors are independent in character and judgement from the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of the non-executive directors have extensive business experience.

All directors have access to the advice and services of the Company Secretary or a suitably qualified alternative, and all the directors are able to take independent professional advice, if necessary, at the Company's expense. Directors offer themselves for re-election at the Annual General Meeting following their appointment by the Board and thereafter in accordance with the Company's current Articles of Association which requires directors to retire from office and offer themselves for reappointment by the members if they were not appointed or reappointed at one of the preceding two Annual General Meetings.

Board Committees

Each of Mr Bertram, Ms Murray and Mr Whiting serve on the Nomination, Remuneration and Audit Committees and Mr Ratcliffe serves on the Nomination Committee. The Committees have written terms of reference which clearly specify their authority and duties and those terms of reference are available upon written request to the Company.

Nomination Committee

Mr Ratcliffe is chairman of the Nomination Committee which also comprises Mr Bertram, Ms Murray and Mr Whiting. The Nomination Committee meets at least once a year and recommends to the Board candidates for appointment as directors and reappointment.

The Board and the Board Committees recognise the importance of promoting all aspects of diversity, including gender, throughout the Group. When making an appointment to the Board, candidates are chosen against criteria, specified by the Nomination Committee in 2011, such as balance of skills, business experience, independence, qualifications, knowledge, diversity and other factors relevant to the Board operating effectively. Successful candidates are chosen on merit against these criteria, regardless of race, gender or religious beliefs.

Remuneration Committee

Ms Murray is chair of the Remuneration Committee and the Committee also comprises Mr Bertram and Mr Whiting. The Directors' Remuneration Report appears on pages 23 to 39.

Audit Committee

Mr Bertram, a Fellow of the Institute of Chartered Accountants in England and Wales, is chairman of the Audit Committee and the Committee also comprises Ms Murray and Mr Whiting. The Audit Committee monitors the integrity of the financial statements of the Company and meets regularly with management and the external auditors to review and monitor the financial reporting process, the statutory audit of the consolidated financial statements, audit procedures, internal controls and financial matters.

The external auditors present in advance of the year end its approach to the forthcoming audit together with its findings from the audit following the completion of its work. The Audit Committee assesses the performance of the external auditors on an annual basis and based on this review the Audit Committee recommends the appointment, reappointment or removal of the Company's external auditors to the Board. This review resulted in the Audit Committee determining to retain PricewaterhouseCoopers LLP as auditors for the Group's 2014 financial statements.

The Chairman and Group Finance Director attend the Audit Committee meetings by invitation, however, the Audit Committee meets at least annually with the Company's external auditors without the other directors present. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee considers that, in some circumstances, the external auditors' understanding of the business can be beneficial in improving the efficiency and effectiveness of advisory work and, therefore, it has been considered appropriate that the external auditors be engaged for non-audit services related to financial and tax matters. The Audit Committee has reviewed the nature of the work and level of fees for non-audit services and considers that this has not affected the auditors' objectivity and independence. The expenditure on non-audit services is set out on page 68.

The Audit Committee reports to the Board on how it has discharged its responsibilities. This includes identifying the significant issues that it has considered in relation to the financial statements and how these issues were addressed, its assessment of the effectiveness of the external audit process and its recommendation on the reappointment of the Company's external auditors together with any other issues on which the Board has asked the Audit Committee's opinion.

The significant judgements considered by the Audit Committee were:-

Revenue Recognition

A key area of judgement in respect of recognising revenue is the timing of recognition where management assumptions and estimates are necessary. The Audit Committee were provided with an overview of significant balances, together with the movement on those balances since the previous year end. In addition, the Audit Committee receives an overview of significant contracts entered into during the course of the year which provides the opportunity to discuss the impact of contractual terms on revenue recognition. External audit performed detailed audit procedures on revenue recognition and reported their findings to the Audit Committee. The Audit Committee concluded that the timing of recognition continues to be in line with the Group's accounting policy on revenue recognition.

Annual Goodwill Impairment Review

Goodwill is a material asset on the Group's balance sheet and it is the Group's policy to annually test the asset for impairment. The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the operating businesses. The key assumptions applied in the calculation relate to the future performance expectations of the businesses. Plans prepared by senior management supporting the future performance expectations used in the calculation were reviewed and approved by the Board. The Audit Committee received a presentation on the outcome of the impairment review performed by senior management. The impairment review was also an area of focus for the external auditor, who reported their findings to the Audit Committee. The Audit Committee concluded that there was no requirement to impair the carrying value of goodwill at the year end.

Tax

The operating businesses operate in a number of territories which increases the complexity of the Group's tax affairs. A presentation was prepared by senior management for the Board and Audit Committee to consider. The presentation provided an overview of the Group's tax affairs together with the proposed accounting treatment of any judgemental items. Tax matters were also an area of focus for the external auditor, who reported their findings to the Audit Committee. The Audit Committee concluded that they were satisfied with the accounting treatment.

Board Attendance

Details of the number of meetings of the Board (including sub-committees at which only certain directors are required to attend) and committees and individual attendances by directors are set out in the table below.

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings held in 2014	11	4	6	1
Martyn Ratcliffe	11	4*	6*	1
Philip Wood	11	4*	6*	1*
Peter Bertram	10	4	5	0
Vanda Murray	11	4	6	1
Peter Whiting	11	4	6	1

* attendance by invitation.

The above table details attendance at scheduled meetings. In addition 8 ad hoc meetings were held, of these meetings, 4 meetings were held by a sub-committee relating to the exercise of share options.

Management Meetings of the Operating Businesses

Each of the Group's two operating businesses hold management meetings on a monthly basis chaired by the Managing Director responsible for that business. The Chairman and Group Finance Director regularly attend these meetings and all Non-Executive Directors are invited to attend these meetings.

Relations with Shareholders

In order to maintain dialogue with institutional shareholders the Chairman and Group Finance Director meet with them following interim and final results announcements, or as appropriate, with other directors available to meet institutional shareholders on request. Where practicable the Annual Report is sent to shareholders at least 20 working days before the Annual General Meeting and each issue for consideration at the Annual General Meeting is proposed as a separate resolution. All continuing directors generally attend the Annual General Meeting.

Capital Structure

The information required pursuant to the Disclosure and Transparency Rules is detailed on page 13.

Social, Ethical and Environmental Risks

The Board takes regular account of the significance of social, environmental and ethical ("SEE") matters to the Group's business of providing IT services and solutions (including software, managed services and consultancy) to the business community.

The Board considers that it has received adequate information to enable it to assess any significant risks to the Company's short-term and long-term value arising from SEE matters and has concluded that the risks associated with SEE matters are minimal. The Board will continue to monitor those risks on an ongoing basis and will implement appropriate policies and procedures if those risks become significant.

Internal Control

The Group maintains an ongoing process in respect of internal control to safeguard shareholders' investments and the Group's assets and to facilitate the effective and efficient operation of the Group.

These processes enable the Group to respond appropriately, and in a timely fashion, to significant business, operational, financial, compliance and other risks, (in accordance with the Code), which may otherwise prevent the achievement of the Group's objectives.

The Group recognises that it operates in a competitive market that can be affected by factors and events outside its control. Details of the major risks identified by the Group are set out in the table on pages 9 and 10. The Group is committed to mitigating risks arising wherever possible and accepts that internal controls, rigorously applied and monitored, are an essential tool in achieving this objective.

The key elements of Group internal control, which have been effective during 2014 and up to the date of approval of these financial statements, are set out below:

- The existence of a clear organisational structure with defined lines of responsibility and delegation of authority from the Board to its executive directors and operating divisions;
- A procedure for the regular review of reporting business issues and risks by the operating businesses;
- Regular review meetings with the operating management;
- A planning and management reporting system operated by each operating business and the executive directors; and
- The establishment of prudent operating and financial policies.

The directors have overall responsibility for establishing financial and other reporting procedures to provide them with a reasonable basis on which to make proper judgements as to the financial position and prospects of the Group, and have responsibility for establishing the Group's system of internal control and for monitoring its effectiveness. The Group's systems are designed to provide directors with reasonable assurance that physical and financial assets are safeguarded, transactions are authorised and properly recorded and material errors and irregularities are either prevented or detected with the minimum delay. However, systems of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

The key features of the systems of internal financial control include:

- Financial planning process with an annual financial plan approved by the Board. The plan is regularly updated providing an updated forecast for the year;
- Monthly comparison of actual results against plan;
- Written procedures detailing operational and financial internal control policies which are reviewed on a regular basis;
- Regular reporting to the Board on treasury and legal matters;
- Defined investment control guidelines and procedures; and
- Periodic reviews by the Audit Committee of the Group's systems and procedures.

The majority of the Group's financial and management information is processed and stored on computer systems. The Group is dependent on systems that require sophisticated computer networks. The Group has established controls and procedures over the security of data held on such systems, including business continuity arrangements.

On behalf of the Board, the Audit Committee has reviewed the operation and effectiveness of this framework of internal control for the year ended 31 December 2014, and up to the date of approval of the Annual Report.

Internal Audit

The need for an internal audit function is reviewed on an annual basis by the Audit Committee taking into account the size and complexity of the Group. At present there is no intention to establish an internal audit function.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE		
	Code of Best Practice – Principles	**Microgen Compliance Statement**
A	**LEADERSHIP**	
1	**The Role of the Board** Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.	The directors' responsibilities are outlined in the Report of the Directors. The Board meets regularly on a formal basis and for additional ad hoc meetings as necessary.
2	**Division of Responsibilities** There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	Mr Ratcliffe was re-appointed Executive Chairman on 29 October 2013. The Board retains a majority of non-executive directors ensuring continued robust corporate governance. Each operating business is the responsibility of a managing director who is invited to attend Board meetings.
3	**The Chairman** The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. He promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. In addition, he ensures that the directors receive accurate, timely and clear information.
4	**Non-Executive Directors** As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	The Board appoints one of the independent non-executive directors to be the senior independent non-executive director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary. The senior independent non-executive director is available to shareholders if they have concerns which contact through the normal channels of the Chairman or Group Finance Director fails to resolve or for which such contact is inappropriate. The Chairman holds meetings with the non-executive directors without the Group Finance Director being present. Led by the senior independent non-executive director, the non-executive directors meet without the Chairman at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. If the directors have concerns which cannot be resolved about the running of the Company or a proposed action, then they ensure that their concerns are recorded in the Board minutes. On their resignation, a non-executive director has to provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.
B	**EFFECTIVENESS**	
1	**The Composition of the Board** The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	The Board consists of the Chairman and Group Finance Director plus a majority of non-executive directors. All of the non-executive directors (including those detailed in the Statement of Compliance) are considered by the Board to be independent of the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.
2	**Appointments to the Board** There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	A separate Nomination Committee, comprising all the non-executive directors together with the Chairman, is responsible for identifying and nominating candidates to fill Board vacancies.
3	**Commitment** All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	The Chairman's other significant commitments are disclosed in the Annual Report. Any changes to such commitments are reported to the Board as they arise and their impact explained in the next Annual Report. Other executive directors will not be given permission by the Board to take on more than one directorship in a company nor chairman of such a company. The terms and conditions of appointment of non-executive directors are made available for inspection. The letter of appointment sets out the expected time commitment. The appointed non-executive directors have undertaken that they will have sufficient time to meet what is expected of them.
4	**Development** All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	The Chairman ensures that new directors receive an induction on joining the Board. Any training needs required by the directors will be discussed with the Chairman.
5	**Information and Support** The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	The Board is supplied with management accounts and operational reviews prior to each meeting. All non-executive directors have extensive business experience and possess relevant and updated skills and knowledge to perform their duties. The Board ensures that directors, especially non-executive directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibility as directors. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (continued)		
	Code of Best Practice - Principles	**Microgen Compliance Statement**
B	**EFFECTIVENESS**	
6	**Evaluation** The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	Given Microgen's size and Board structure, performance evaluation is an ongoing process. A performance evaluation is undertaken for all directors at the time of their proposed reappointment. The Group Finance Director receives an annual performance appraisal as part of the Management Bonus Scheme. The performance of each Board Committee is reviewed on an annual basis.
7	**Re-election** All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	Non-executive directors are appointed for specific terms, up to a maximum of three years and re-appointment is not automatic. All directors offer themselves for election at the Annual General Meeting following their appointment and for re-election thereafter in accordance with the Company's articles, which require one-third of directors to retire in rotation at each Annual General Meeting. The Board sets out to shareholders in papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The Chairman confirms to shareholders when proposing re-election that the non-executive director's performance remains effective.
C	**ACCOUNTABILITY**	
1	**Financial and Business Reporting** The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Board considers it is in compliance with this requirement.
2	**Risk Management and Internal Control** The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain a sound risk management and internal control systems.	The Company operates a detailed internal control process which is reviewed at least on an annual basis by the Audit Committee and endorsed by the Board. Further information is provided in the Corporate Governance Statement.
3	**Audit Committee and Auditors** The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	The Audit Committee consists of all non-executive directors and meets at least three times a year. The Chairman and Group Finance Director are invited to attend but the Audit Committee meets at least annually with the Company's auditors without the other directors present. The Board ensures that at least one member of the Audit Committee has recent and relevant financial experience.
D	**REMUNERATION**	
1	**The Level and Components of Remuneration** Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigourously applied.	The Directors' Remuneration Report provides details of the executive directors' remuneration.
2	**Procedure** There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	Remuneration packages for individual directors are set by the Remuneration Committee after receiving information from independent sources and if required the Company's Human Resources function. The Chairman and Group Finance Director may be invited to attend the Committee's meetings.
E	**RELATIONS WITH SHAREHOLDERS**	
1	**Dialogue with Shareholders** There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	The Chairman and Group Finance Director meet on a regular basis with the Company's major shareholders. Non-executive directors are available to meet institutional shareholders if requested.
2	**Constructive Use of General Meetings** The board should use the general meetings to communicate with investors and to encourage their participation.	The Company arranges for the Notice of the Annual General Meeting and related papers to be sent to shareholders at least 20 working days before the meeting and for other general meetings at least 14 working days before the meeting. All continuing directors make themselves available at the Annual General Meeting to respond to any questions raised by the investors in attendance.

Introduction

On behalf of the Board, I am pleased to present the Remuneration Committee's ("Committee") report of the directors' remuneration for the year ended 31 December 2014.

This report is prepared in accordance with The Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and is set out in two sections: the Directors' Remuneration Policy and the Annual Report on Remuneration. At the Company's Annual General Meeting on 28 April 2014, shareholders voted in favour of the Directors' Remuneration Policy.

Reporting and policy requirements

There follows below Part A being the Directors' Remuneration Policy which was approved by shareholders at the Annual General Meeting on 28 April 2014 and Part B being the Annual Report on Remuneration which will be voted upon at the Annual General Meeting on 18 May 2015.

Compliance

This report (comprising this introduction and Parts A and B) has been prepared in accordance with the Companies Act 2006 and The Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the UK Authority's Listing Rules and the Disclosure and Transparency Rules. The Committee further adopts the principles of good governance as set out in the UK Corporate Governance Code.

THE FOLLOWING DIRECTORS' REMUNERATION POLICY WAS APPROVED BY SHAREHOLDERS AT THE ANNUAL GENERAL MEETING ON 28 APRIL 2014 AND IS PROVIDED FOR INFORMATION PURPOSES ONLY. FOR EASE OF READERSHIP ONLY, THE DIRECTORS' REMUNERATION POLICY HAS BEEN UPDATED, A VERSION OF THE ORIGINAL TEXT AND CHARTS CAN BE FOUND IN THE ANNUAL REPORT 2013 AT WWW.MICROGEN.COM. THIS DIRECTORS' REMUNERATION POLICY IS NOT SUBJECT TO VOTE AT THE ANNUAL GENERAL MEETING ON 18 MAY 2015

A. DIRECTORS' REMUNERATION POLICY ("POLICY")

This section of the report sets out the Policy which was approved by shareholders at the 2014 Annual General Meeting. All elements of the Policy were observed by the Committee from 28 April 2014 (the date of the Company's Annual General Meeting) and formally came into effect on 1 January 2015 and shall apply for the period of three years thereafter.

Details relating to how the remuneration policy was implemented during the year ended 31 December 2014 are set out below in Part B as this Part A sets out the remuneration policy of the Company which came into effect on 1 January 2015.

Remuneration policy for Executive Directors

The Policy for the Executive Directors and other senior executives is based on the following principles, and takes into account prevailing best practice, shareholder expectations, and the remuneration of the wider employee population:

- Determine remuneration by reference to individual performance, experience and prevailing market conditions, with a view to providing a package appropriate to the responsibilities involved;
- Align interests of directors and senior executives with those of the shareholders;
- Ensure remuneration arrangements support the Group's business strategy;
- Encourage the right behaviours, drive performance and reward results; and
- Deliver median/upper quartile pay for median/upper quartile performance.

Ongoing policy commitments

At the General Meeting held on 18 November 2013 shareholders approved a regular programme of PSP share awards which shall continue to apply during the period to which this Directors' Remuneration Policy applies up to 31 December 2016, such programme being described on pages 37 and 38.

Executive Directors' Policy Table

The following will apply to any remuneration and loss of office payments made to the Executive Directors on or after the Company's Annual General Meeting on 28 April 2014 up to and including 31 December 2017.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Basic salary To pay competitive basic salary to attract, retain and motivate the talent required to operate and develop the Group's businesses and to develop and deliver the Group's strategy	Basic salaries are reviewed on an annual basis with reference to (i) scope of the role, (ii) performance and experience of the individual, (iii) pay levels at comparable companies, and (iv) pay and conditions elsewhere in the Group. Basic salaries are also reviewed when an individual changes roles or responsibilities.	Salary increases will typically be in line with the increases awarded to other employees in the Group. In exceptional circumstances at the Committee's discretion, increases of a higher amount may be made taking into account individual circumstances such as: • a material increase in scope or responsibility of the individual's role; • development of the individual within the role (including enhanced performance); • alignment to market level and/or • necessary for the retention of an Executive Director.	None, although overall performance of the individual will be taken into consideration by the Committee when setting and reviewing salary levels.
Pension To provide an opportunity for executives to build up income on retirement	All Executive Directors (excluding the Executive Chairman) are eligible to participate in the Group Personal Pension Scheme or receive a contribution to self-invested personal pension schemes.	The Group matches employee contributions on a 2:1 basis with employer contributions not exceeding 6% of basic salary. No element other than basic salary is pensionable.	None. Not performance related.
Benefits To provide market-competitive non-cash benefits	Executive Directors (excluding the Executive Chairman) receive benefits which consist primarily of income protection in the event of long-term ill health, private healthcare insurance, death-in-service benefits and car fuel benefits.	Benefits may vary by role and are set at levels which the Committee considers to be sufficient based on the role and individual circumstances.	None. Not performance related.
Management Bonus Scheme To incentivise and reward strong performance against financial and non-financial annual targets, thus delivering value to shareholders	Performance targets are set in the first quarter of the financial year. The Committee then assess actual performance compared to those performance targets following the completion of the financial year and determine the bonus payable to each individual. Bonus payments are delivered in cash and clawback provisions exist which entitle the Committee, at its discretion, to seek repayment of up to 25% of net bonus payment for a period of 18 months after the end of the relevant bonus year.	For Executive Directors (excluding the Executive Chairman) on-target performance shall not exceed 50% of salary and maximum performance shall not exceed 100% of salary. The Executive Chairman does not participate in the Management Bonus Scheme and any bonus paid to him is separately and solely determined by the Committee and will be put forward for approval by shareholders at a General Meeting. The maximum bonus amount that the Committee can recommend to shareholders is up to 100% of basic salary.	Performance is determined by the Committee on an annual basis by reference to the following metrics: • 50% of the award is based on financial measures; and • 50% of the award is based on strategic measures (all subject to financial under-pin). Previously 100% of the award was based on financial measures, however following the Strategic Review, the Committee believes that it is appropriate to adjust the metrics as above. The Committee anticipates that the metrics will be adjusted to a 75% / 25% split within the three year period ending 31 December 2017.

Executive Directors' Policy Table (continued)

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Performance Share Plan (PSP) To drive sustained long-term performance that supports the creation of shareholder value	The PSP is used to provide a meaningful reward to senior executives linked to the long-term success of the business, by delivering annual awards of nominal-cost options.	Other than in respect of awards specifically approved by shareholders, the PSP provides for awards of up to a maximum limit of 100% of basic salary for Executive Directors in the 12 calendar months immediately preceding the date of grant, with a limit of 200% in exceptional circumstances. The 2013 awards, approved by shareholders at the General Meeting held on 18 November 2013, are excluded in calculating the maximum limits detailed above.	Other than in respect of awards specifically approved by shareholders, vesting of PSP awards is subject to continued employment and performance against demanding performance measures. Awards made under the PSP will have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards will lapse.
Company Share Option Plan (CSOP) To align management and shareholder interests and to recognise significant achievement	Option grants are made from time to time at the Committee's discretion.	Under the Company Share Option Plan – Part A which was approved by HMRC and introduced in 2006, any aggregate outstanding CSOP awards made to a participant may not exceed £30,000. The Company Share Option Plan – Part B, also introduced in 2006, is an unapproved plan and except in exceptional circumstances to be determined by the Committee, the CSOP provides for awards of up to a maximum limit of 100% or 200% of basic salary for Executive Directors in the 12 calendar months immediately preceding the date of grant.	Vesting of options awards is subject to continued employment and performance. The measures weightings applying to each performance measure may vary year-on-year to reflect strategic priorities. Awards made under the options plans will have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards will lapse.

Exceptional circumstances exception

The Committee shall be entitled to have the discretion to award remuneration to an individual outside of the scope of the Executive Directors' Policy Table whose appointment to the Company as an Executive Director is being contemplated by the Committee in exceptional circumstances and where the interests of the Group require an exception to be made in order to secure the recruitment successfully.

Notes to the Policy Table

Selection of performance measures – Management Bonus Scheme

The performance measures under the Management Bonus Scheme are selected annually to reflect the main KPIs and strategic priorities for the Group and operating businesses.

Selection of performance measures – Performance Share Plan

The Committee's policy is to set performance targets which are both stretching and achievable and that the maximum outcomes are only available for outstanding performance.

Shareholding guidelines

The Company expects Directors and senior employees when exercising PSP share options to enter into an undertaking with the Company not to dispose of more than fifty per cent (50%) of the shares until the day on which his or her holding has a market value equal to that of his or her basic salary. Any PSP share options that are sold to discharge the option holder's fiscal obligations are not treated as having been acquired by the option holder.

Remuneration policy for Non-Executive Directors

The remuneration policy for Non-Executive Directors is set by the Board having taken account of the fees in other companies of similar size and the limits set in the Company's Articles of Association. When recruiting Non-Executive Directors, the remuneration offered will be in line with the policy table below.

Non-Executive Directors' Policy Table

The following will apply to any remuneration and loss of office payments made to the Non-Executive Directors on or after the Company's Annual General Meeting on 28 April 2014 up to and including 31 December 2017.

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company	Each Non-Executive Director is paid a basic fee. Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (Audit and Remuneration) excluding the Nomination Committee. The fees paid to the Non-Executive Directors are determined by the Board. The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans or pension arrangements. Fee levels are benchmarked against FTSE-listed SmallCap companies of similar size and complexity. Time commitment and responsibility are taken into account when reviewing fee levels.	Non-Executive Director fees are reviewed by the Board once every three years with any adjustments effective 1 January of the following financial year. However, in the event that there is a material change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board shall seek shareholder approval to make the appropriate adjustment to the fee level. The maximum aggregate fees for all Non-Executive Directors permitted by the Company's Articles of Association is £1 million (excluding bonus arrangement and incentive schemes) and the overall fees paid to the Non-Executive Directors will remain within this limit.	None

Remuneration policy for other employees across the Group

The Committee's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies. Interim salary reviews are typically only proposed where an employee has a change in role or the scope of their role increases.

The Group offers three variable pay schemes to permanent employees of the Group who do not participate in the Management Bonus Scheme. These are the Sales Commission Plan, the Consultants' Bonus Scheme and the Annual Profit Share Bonus Plan. Employees participate in one of these schemes only.

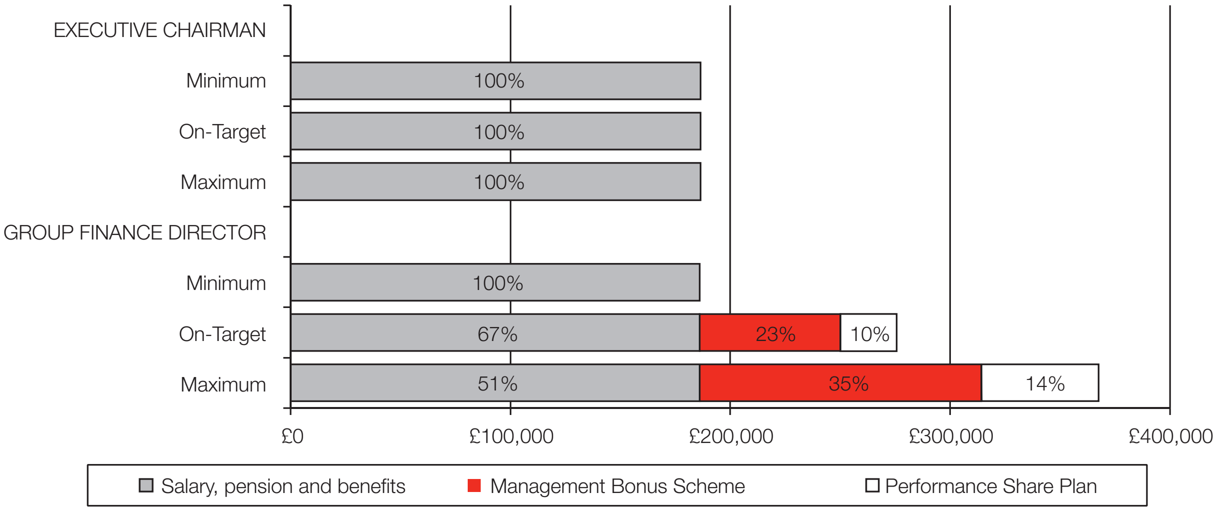
Under the Sales Commission Plan, commission is calculated and paid on a monthly basis for all commission earning sales people in the Microgen Group. Employees who are consultants and are targeted to generate fee income are eligible to participate in the Consultants' Bonus Scheme. Employees who do not participate in the Sales Commission Plan or the Consultants' Bonus Scheme are eligible to participate in an Annual Profit Share Bonus Plan where the quantum is set by the Committee in relation to Group and operating business performance. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

All employees are eligible to participate in the PSP and the CSOP and are eligible to receive option grants. Under normal conditions, performance conditions are consistent for all participants, while award sizes vary by organisational level.

Illustrations of the application of the Executive Directors' Remuneration Policy

The chart below sets out an illustration in line with the Policy for the Executive Directors set out above and provides an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum'.

Potential reward opportunities are based on the Policy, applied to basic salaries as at 24 February 2015. Note that the projected values exclude the impact of share price movement and actual outcomes may differ from those shown.



The 'minimum' scenario shows basic salary, pension and benefits (i.e. fixed remuneration) which are the only elements of the Executive Directors' remuneration packages which are not at risk.

The 'on-target' scenario reflects fixed remuneration as above, plus for the Group Finance Director a target payout of 40% of salary from the Management Bonus Scheme. In this scenario it is assumed that the Group Finance Director is granted PSP awards of a value equivalent to 33.33% of his basic salary with 50% ultimately vesting.

The 'maximum' scenario reflects fixed remuneration as above plus for the Group Finance Director a payout of 80% of salary from the Management Bonus Scheme. In this scenario it is assumed that the Group Finance Director is granted PSP awards of a value equivalent to 33.33% of his basic salary with 100% ultimately vesting.

The Executive Chairman does not participate in the Management Bonus Scheme and any bonus paid to him is separately and solely determined by the Committee and will be put forward for approval by shareholders at a General Meeting. The maximum bonus amount that the Committee can recommend to shareholders is up to 100% of basic salary.

Approach to Recruitment of Directors

Executive Directors

When hiring a new Executive Director, or promoting to the Board from within the Group, the Committee may make use of any of the existing components of remuneration as detailed in the table below. Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these remuneration arrangements.

Component	Approach	Maximum annual grant value
Basic salary	The basic salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to their development in the role	
Pension	New appointees will be eligible to participate in the Group Personal Pension Scheme or receive a contribution to self-invested personal pension schemes in line with existing executives	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) income protection in the event of long-term ill health, private healthcare insurance, death-in-service benefits and car fuel benefits	
Management Bonus Scheme	The scheme described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the individual element will be tailored towards the executive	100% of salary
Performance Share Plan	New appointees who have been invited to participate in the PSP will be granted awards under the PSP on the same terms as other executives, as described in the policy table	200% of salary

In determining appropriate remuneration package for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of the Company and its shareholders. In addition, the Committee reserves the right to make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards and the likelihood of those conditions being met.

Exceptional circumstances exception

The Committee shall be entitled to have the discretion to award remuneration to an individual outside of the ambit of the Executive Directors' Policy Table whose appointment to the Company as an Executive Director is being contemplated by the Committee in exceptional circumstances and where the interests of the Group require an exception to be made in order to successfully secure the recruitment.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 27. A basic fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or Chairman of the Audit or Remuneration Committees as appropriate.

Directors' Service Contracts and Exit Payment Policy

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. Each Executive Director has a rolling service contract with the Group which can be terminated with written notice in accordance with the table below. Such contracts provide for an obligation to pay salary plus pension and benefits for any portion of the notice period waived by the Group. Executive Director service contracts are available to view at the Company's registered office.

Executive Director	Date of service contract	Notice period from the individual	Notice period from the employer
Martyn Ratcliffe	30 July 1998	6 months	6 months
Philip Wood	21 October 2006	6 months	6 months

The table below summarises how the awards under the Management Bonus Scheme and long-term incentives are typically treated in specific circumstances:

Reason for leaving	Treatment
Management Bonus Scheme	
Resignation	Awards lapse on the date of notice of termination.
Retirement, ill-health, disability, death, change of control or redundancy	The Committee may consider it appropriate to award a bonus depending on the relevant termination scenario. If a bonus is paid then cash bonuses will typically only be paid to the extent that the relevant performance targets set at the beginning of the plan year have been met or are expected to be met in the reasonable opinion of the Committee, however, the Committee reserves the right to award full or partial bonus for the year of cessation depending on the circumstances.
Performance Share Plan and Share Option Plans	
Resignation	Awards lapse.
Retirement, ill-health, disability, death or redundancy	The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved. The determination of vesting will be made as soon as reasonably practical following the end of the performance period or such earlier date as the Committee may agree.
Change of Control	Microgen awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.

Non-Executive Directors' Terms of Appointment

Subject to annual re-election by shareholders, Non-Executive Directors are appointed for an initial term of approximately three years. Subsequent terms of three years may be awarded. Details of the Non-Executive Directors' terms of appointment are shown in the table below and copies of the Non-Executive Directors' terms of appointment are available to view at the Company's registered office. The appointment, re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

	Initial agreement date	Expiry date of current agreement
Peter Bertram	3 October 2006	31 May 2016
Vanda Murray	1 September 2011	30 April 2017
Peter Whiting	2 February 2012	30 April 2017

Executive Directors – External appointments

The Executive Directors may accept external appointments of Non-Executive Directorship in order to broaden their experience for the benefit of the Company. Such appointments are subject to approval by the Board in each case, and the Executive Director may retain any fees paid in respect of such a directorship.

Mr Ratcliffe was appointed Chairman of Sagentia Group plc on 15 April 2010 and Executive Chairman on 18 October 2012. Mr Ratcliffe has agreed not to accept any other external appointments for a period of 3 years from 1 November 2013 without the Board's prior consent.

Consideration of conditions elsewhere in the Company

Although the Committee does not consult directly with employees on executive remuneration policy, the Committee does consider general basic salary increases across the Company, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

Consideration of shareholder views

The Committee is committed to an open and transparent dialogue with shareholders on matters relating to remuneration. When determining remuneration, the Committee takes into account views of shareholders and investor guidelines. The Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to remuneration policy.

B ANNUAL REPORT ON REMUNERATION

The following section provides details of how Microgen's remuneration policy was implemented during the year ended 31 December 2014.

Role of the Remuneration Committee

The Committee's primary function is to support the Company's strategy by ensuring its delivery is supported by the Company's remuneration policy. The Committee's responsibilities include:

- determining the Company's remuneration policy and monitoring its implementation;
- approving remuneration packages for each of the Executive Directors and the Executive Chairman;
- recommending the remuneration of the Non-Executive Directors for determination by the Board;
- determining the terms on which Performance Share Plan and Company Share Option Plan awards are made; and
- reviewing and setting performance targets for incentive plans.

The Committee's full terms of reference provide further details of the roles and responsibilities of the Committee and are available on the Company's website.

Remuneration Committee membership in 2014

The membership of the Remuneration Committee as at 31 December 2014 comprises Vanda Murray, Peter Bertram and Peter Whiting and is chaired by Ms Murray.

Only Committee members have the right to attend Committee meetings, though other individuals such as the Executive Chairman and the Group Finance Director may attend by invitation. External consultants provide advice to the Committee from time to time. No individuals are involved in decisions relating to their own remuneration.

The Committee held 6 meetings during the financial year and details of members' attendance at meetings are provided in the Corporate Governance section on page 19.

Single total figure of remuneration (audited)

Executive Directors

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2014 and the prior year:

	Martyn Ratcliffe		Philip Wood	
	2014	2013	**2014**	2013
	£	£	**£**	£
Basic salary	**275,000**	216,667	**174,700**	171,760
Taxable benefits*	**–**	–	**2,822**	2,760
Pension**	**–**	–	**9,600**	9,600
Management Bonus***	**–**	–	**32,000**	–
Long Term Incentives****	**–**	–	**–**	–
Total	**275,000**	216,667	**219,122**	184,120

* Taxable benefits consist primarily of private healthcare insurance and car fuel benefits.
** The Company paid £9,600 on behalf of Mr Wood into a self-invested personal pension scheme (2013: £9,600).
*** Payment for performance during the year under the Management Bonus Scheme. See following sections for further details.
**** Includes any PSP or option awards based on the value at vesting of shares or options vesting on performance in the year ending 31 December 2014. No shares or options were due to vest on performance during the year ended 31 December 2014.

Non-Executive Directors

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2014 and the prior year:

	Peter Bertram		Vanda Murray		Peter Whiting	
	2014	2013	**2014**	2013	**2014**	2013
	£	£	**£**	£	**£**	£
Basic salary	**40,000**	37,000	**40,000**	37,000	**40,000**	37,000
Committee fees	**7,500**	7,500	**6,500**	5,000	**-**	–
Senior Independent Director fees	**–**	5,000	**–**	–	**–**	–
Total	**47,500**	49,500	**46,500**	42,000	**40,000**	37,000

Incentive outcomes for the year ended 31 December 2014

Management Bonus Scheme in respect of 2014 performance

The 2014 Management Bonus Scheme for Executive Directors (except for the Executive Chairman who does not participate in the Scheme) is determined by the Committee by reference to the Group's financial and the Executive Director's personal performance during 2014. When assessing performance the Committee compares reported operating profit to target in addition to the consideration of other indicators of performance including customer retention, recurring revenue growth, cash flow management and achievement of other objectives. Annual bonus targets for the participants for 2014 were set up to a maximum of 50% with an overall cap of 100% of salary. Bonuses under the scheme can only be paid up to the total value of the bonus fund as approved by the Committee.

The individual performance targets set and performance against each of the metrics are deemed by the Committee to be commercially sensitive and will therefore not be disclosed.

Outcome

The Committee have assessed the performance of Mr Wood and have awarded him a payment under the scheme of £32,000.

Performance Share Plan vesting

No Performance Share Plan awards for Executive Directors were granted or due to vest in the year.

Termination payments made in the year (audited)

No termination payments were made to Directors in the year.

Payments to past Directors (audited)

No payments were made to past Directors in the year.

Implementation of remuneration policy for 2015 (audited)

Basic salary

Market positioning of basic salary is reviewed on an individual basis, by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.

Executive Directors	Basic salary from 1 January 2014	Basic salary from 1 January 2015	Percentage increase
Martyn Ratcliffe*	£275,000	£275,000	0%
Philip Wood	£174,700	£174,700	0%

* Mr Ratcliffe does not participate in the Company's pension, private medical insurance, permanent health insurance or life assurance schemes and does not receive any other fees (other than his basic salary) or benefits in kind from the Company.

Pursuant to the Group's Trading Update of 23 January 2015, which advised that it is not anticipated that attractive larger opportunities to deploy the Group's substantial cash resources will arise in the foreseeable future, with effect from 1 February 2015 Mr Ratcliffe has reduced his minimum time commitment from 100 days to 70 days per annum. Mr Ratcliffe's basic salary from 1 February 2015 is £192,500 per annum.

Pension

Mr Wood will continue to participate in the Group Personal Pension Scheme or receive a contribution to self-invested personal pension schemes. Mr Ratcliffe does not participate in the Group Personal Pension Scheme.

Management Bonus Scheme

The maximum bonus opportunity for Executive Directors in 2015 will remain unchanged from the opportunity in 2014, and will be a maximum on-target of 50% with an overall cap of 100% of salary, however, the on-target bonus for Mr Wood is 40% of basic salary with a maximum bonus of 80% of basic salary. The Executive Chairman does not participate in the Management Bonus Scheme and any bonus paid to him is separately determined by the Committee and will be put forward for approval by shareholders at a General Meeting. The maximum bonus amount that the Committee can recommend to shareholders is up to 100% of basic salary.

Bonuses will be based on performance compared to a number of financial metrics and the individual and strategic goals set for the year. The financial metrics include group operating profit and a number of the KPIs of each operating business. The individual and strategic goals will be subject to financial underpin. Bonuses under the scheme can only be paid up to the total value of the bonus fund as approved by the Committee.

Long-term incentives

No awards were made to Directors in 2014.

Non-Executive Director fees

With effect from 1 January 2014, the basic fee payable to each Non-Executive Director is £40,000 per annum. The fees payable for chairing the Audit and Remuneration Committees are £7,500 and £6,500 per annum respectively.

Percentage change in Executive Chairman's remuneration (audited)

The table below shows the percentage change in Executive Chairman remuneration from the prior year compared to the average percentage change in remuneration for all other employees. Note, for the purposes of this disclosure, remuneration comprises salary, benefits (excluding pension) and variable pay paid in the year only.

	Change in remuneration from 2013 to 2014	
	Executive Chairman*	**Other employees****
Salary	27%	3%
Taxable benefits	0%	(1%)
Single-year variable	0%	(5%)
Total	27%	2%

* Mr Ratcliffe's basic salary was increased from 1 November 2013 from £205,000 to £275,000 to reflect the increase in the minimum number of days that he was required to work from 75 days to 100 days per annum. With effect from 1 February 2015 Mr Ratcliffe has reduced his minimum time commitment from 100 days to 70 days per annum with his basic salary reducing to £192,500.

** Based on UK employees only as the most appropriate comparator group.

Relative importance of spend on pay (audited)

The table below shows the percentage change in spend on pay and shareholder distributions (i.e. dividends and share buybacks) from the financial year ended 31 December 2013 to the financial year ended 31 December 2014.

	% increase (decrease)	**2014 £000**	2013 £000
Return to shareholders in year	(86%)	**2,439**	17,016
Employee remuneration	5%	**16,466**	15,649

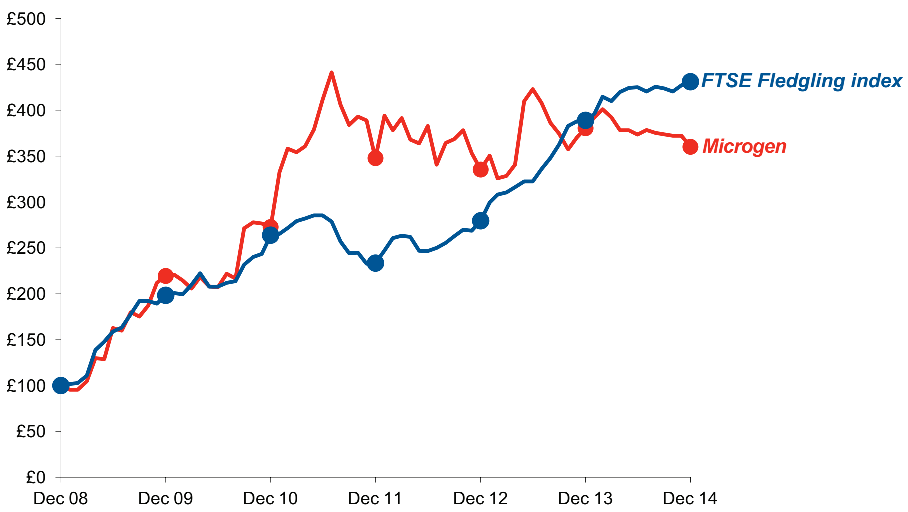
The return to shareholders in 2013 includes £14.3 million in respect of special dividends and share buybacks.

Comparison of Company performance

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Fledgling Index for the six years ended 31 December 2014. The Committee consider that the FTSE Fledgling Index is the most appropriate comparison given the similarities between the Company and the companies forming this index.

The total shareholder return performance (as shown in the graph below) for the Company includes the impact of the dividends paid to its Shareholders across the period; however, it does not reflect either the £6.2m or £10.0m returned to shareholders via Tender Offer in 2010 and 2013 respectively.

Value of £100 invested on 31 December 2008



The table below details Mr Ratcliffe's single figure of remuneration. The audited single figures of remuneration below are prepared on the same basis as the single total figure of remuneration on page 33.

	2010	2011	2012	2013	2014
Martyn Ratcliffe					
Single figure of remuneration	£252,296	£224,798*	£205,000	£216,667**	**£275,000*** **
Bonus award as % of maximum opportunity	n/a	n/a	n/a	n/a	**n/a**
Share Option award vesting as % of maximum opportunity	n/a	100%****	n/a	n/a	**n/a**

* The reduction in Mr Ratcliffe's basic salary from 1 June 2011 was to reflect the reduction in the minimum number of days per annum that he was required to work reducing from 120 days to 75 days.

** Mr Ratcliffe's basic salary was increased from 1 November 2013 from £205,000 to £275,000 to reflect the increase in the minimum number of days that he is required to work from 75 days to 100 days per annum.

*** Mr Ratcliffe's basic salary was reduced from £275,000 to £192,500 with effect from 1 February 2015 to reflect the reduction in the minimum number of days that he is required to work from 100 days to 70 days per annum.

**** Mr Ratcliffe was awarded 1,000,000 share options under the Company Share Option Plan 2006 on 2 May 2008, these share options vested on 2 May 2011.

Directors' shareholdings (audited)

The interests of the directors and their families in the ordinary shares of the Company as at 31 December 2014 were as follows:

	Ordinary shares at 31 December 2014	Ordinary shares at 31 December 2013
Martyn Ratcliffe	**5,294,524**	5,294,524
Philip Wood	**142,246**	142,246
Peter Bertram	**46,022**	46,022
Vanda Murray	**2,000**	2,000
Peter Whiting	**24,000**	24,000

There have been no changes to directors' shareholdings since 31 December 2014. None of the directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group. Details of directors' interests in shares and options under Microgen long-term incentives are set out in the sections below.

Directors' other share interests (audited)

The table below shows the other share interests of each director as at 31 December 2014:

	Share options unvested and subject to performance conditions & continued employment	**Share options vested but not exercised**
Martyn Ratcliffe	2,500,000	1,000,000
Philip Wood	500,000	–
Peter Bertram	–	–
Vanda Murray	–	–
Peter Whiting	–	–

There have been no share options awarded to the Executive Directors since 31 December 2014.

Further information in respect of share options

In respect of Mr Ratcliffe's unvested share options, the performance conditions are as follows:

- 500,000 share options with a performance condition that the Company's share price reaches £2.00 per share;
- A further 1,000,000 share options with a performance condition that the Company's share price reaches £2.50 per share; and
- A further 1,000,000 share options with a performance condition that the Company's share price reaches £3.00 per share.

For assessing whether the share price performance conditions have been achieved, the Company's share price must be sustained for a period of 20 consecutive business days at or above the specified level. The above performance conditions must be achieved within five years from the date of grant.

As a condition of exercise in respect of the unvested share options Mr Ratcliffe is required to hold a minimum of 5,500,000 ordinary shares in the Company at the point of exercise. Following the proposed return of capital, details of which are provided at page 2, the minimum holding requirement will reduce in line with the proposed share consolidation. In the event of the termination of Mr Ratcliffe's service contract (except due to voluntary resignation or gross misconduct) those unvested share options which have satisfied the above performance conditions at that time will immediately vest even if the point of termination is within three years from the date of grant. Mr Ratcliffe's share options are capable of being exercised three years from the date of grant with the last date of exercise ten years from the date of grant.

In respect of Mr Wood's share options, 50% of share options do not have performance conditions attached (other than continued employment) and 50% have a Total Shareholder Return ("TSR") performance condition under which:

- one-third will vest if (i) the Company's TSR at least matches the performance of the FTSE Fledgling Index over the performance period; and (ii) the Company's TSR over the performance period is not negative;
- a further third will vest if (i) the Company's TSR outperforms the FTSE Fledgling Index by at least 25% over the performance period; and (ii) the Company's TSR over the performance period is at least 10%; and
- a further third will vest if (i) the Company's TSR outperforms the FTSE Fledgling Index by at least 50% over the performance period; and (ii) the Company's TSR over the performance period is at least 20%.

The relevant performance period for assessing the Company's TSR will be 3 years commencing on 20 November 2013. The reference point for the Company's TSR at the start of the performance period will be 123 pence whilst the closing reference point for the Company's TSR will be the average closing share price over the 30 calendar days ending on the last day of the performance period. 65% of the share options will be capable of exercise after three years and 35% after five years from the date of grant respectively.

Under the rules of the PSP, Mr Wood is not entitled to dispose of more than 50% of the shares that he may acquire on exercise of these share options until the day on which his total holding of shares in the Company has a market value equal to his basic salary. For the purposes of this rule, shares sold to discharge Mr Wood's fiscal obligations shall be treated as not having been acquired by him. Mr Wood's current minimum holding according to these rules is 41,423 shares in the Company.

Advisers

In fulfilling its role the Committee seeks professional advice when considered appropriate to do so. The services of Kepler Associates, an independent adviser on executive remuneration, were made available to the Committee during the year.

Kepler is a founder member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to Remuneration Committees of UK-listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Their total fees for the provision of remuneration services to the Committee in 2014 were £3,260. The Committee is satisfied that the advice provided by Kepler is independent.

Statement of Shareholder voting

At the Annual General Meeting of the Company on 28 April 2014 the results regarding Resolution 2 (to approve the Directors' Remuneration Report for the year ended 31 December 2013) were as follows:

	Total number of votes	**% of votes cast**
For (including discretionary)	49,744,618	90%
Against	5,426,159	10%
Total votes cast (excluding withheld votes)	**55,170,777**	**100%**
Votes withheld	2,550	<0.01%
Total votes cast (including withheld votes)	**55,173,327**	

Note: Abstained votes are not included in the final proxy figures as they are not recognised as a vote in law.

In addition the results regarding Resolution 3 (to approve the Directors' Remuneration Policy to take effect from 1 January 2015) were as follows:

	Total number of votes	**% of votes cast**
For (including discretionary)	47,906,090	87%
Against	7,264,687	13%
Total votes cast (excluding withheld votes)	**55,170,777**	**100%**
Votes withheld	2,550	<0.01%
Total votes cast (including withheld votes)	**55,173,327**	

The Remuneration Report and the Remuneration Policy were approved by a duly authorised Committee of the Board of Directors on 24 February 2015 and signed on its behalf by:

Vanda Murray OBE

Chair of the Remuneration Committee

24 February 2015

Independent Auditors'
Report to the Members of Microgen plc

Report on the financial statements

Our opinion

In our opinion:

- Microgen plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

Microgen plc's financial statements comprise:

- the balance sheets as at 31 December 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the statements of cash flows for the year then ended;
- the statements of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview

Materiality	Overall Group materiality: £315,000 which represents 5% of profit before tax.
Audit scope	We conducted an audit of full year financial information at six reporting units, with specific tests undertaken at a further four reporting units and at group head office. The reporting units where we performed audit work accounted for 82% of Group revenue, 80% of Group profit before tax and all material balance sheet items.
Areas of focus	Risk of fraud in revenue recognition – we considered and tested the recognition of revenue from sales of software licences and related services.
	Valuation of goodwill – we evaluated whether goodwill was impaired.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Risk of fraud in revenue recognition We focused on the timing of the recognition of revenue and its presentation in the income statement, because this is dependent on the fulfilment of contractual obligations, which can be complex. For revenues recognised on the basis of a defined time period, such as periodic licences, we focussed on compliance with the contractual terms applicable and the appropriateness of recognition. For consultancy revenue, we focussed on ensuring that hours invoiced were consistent with underlying records and that the rates applied were broadly consistent across the business. For areas such as funded development, where progress is measured on a percentage completion basis, we focussed on the level of completion determined by management and the judgements around the potential for additional costs. Perpetual licenses made an immaterial contribution to revenue for the year and were therefore not part of our area of focus.	For new software licence revenue, we read contractual terms for a sample of contracts and assessed whether revenue should be recognised at inception or over a defined licence term. We tested whether the conditions required for initial recognition of licence revenue set out in the accounting policies note had been met. We assessed the reasonableness of the allocation of consideration between different performance obligations within the contract, such as licenced rights to use software, maintenance, support and consultancy services. This included assessment of the allocation of revenue between consulting and license revenue by comparison with Microgen's typical hourly rates for consultancy. We noted no material exceptions from this work. For ongoing software implementation and consulting contracts, we assessed material deferred revenue balances and contract provisions in light of the stage of completion of the projects at the year end, customer acceptance of the work done, evidence of any ongoing disputes, and the directors' estimates of costs to complete the contract. We noted no material differences from this work and believe the annual report appropriately highlights significant judgements made by management. We also tested journal entries posted to revenue accounts to identify unusual or irregular items. We noted no exceptions from this work.
Valuation of goodwill The Group has goodwill balances from previous acquisitions in respect of both the Aptitude Software (£15.3m) and Financial Systems (£26.5m) cash generating units. The valuation of these balances is inherently judgemental as it is based on the assessed value-in-use of each of these businesses, and these valuations include significant assumptions. The key assumptions are as disclosed in note 8, being the discount rate applied to projected future cash flows, operating profit for each division in 2015 and divisional growth rates both over the following four years and into perpetuity after that period, and the cash conversion rate applied to projected future operating profits.	We assessed the reasonableness of the significant assumptions in the goodwill valuation models for each cash generating unit, by reference to both company-specific and wider industry benchmarks, including assessing the appropriateness of the discount rate applied, reviewing Board-approved forecasts in light of actual performance, and considering the forecast assumptions for future levels of business. Forecasts were consistent with the latest Board-approved models and the discount rate applied is within the range of expected values. We note that the projected 30% growth rate in Aptitude Software operating profits for the next five years is based upon the beneficial effect of additional investment in the business in order to achieve this growth. We note that the projected 7.5% rate of decline in Financial Systems operating profits from 2016-2019 is in line with recent actual performance. We tested the mathematical accuracy and integrity of the valuation models. We tested the sensitivity of the models to changes in the significant assumptions, and assessed whether such changes are reasonably possible. We evaluated the disclosures made in respect of the valuation methodology, significant assumptions and their respective sensitivities. We noted no exceptions from this work.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent Auditors'
Report to the Members of Microgen plc

The Group is structured such that the significant majority of the business is comprised of two operating businesses, being Aptitude Software and Financial Systems. The Group financial statements are a consolidation of 14 reporting units, comprising the Group's operating subsidiaries and overseas branches, and centralised Group functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units.

Accordingly, of the Group's 14 reporting units, we identified six which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. In addition to the full scope audits, specific audit procedures were performed on four further reporting units and on selected consolidation adjustments made in relation to individually significant balances. These included procedures on the specific income statement items shown as non-underlying, goodwill, intangible assets, taxation, prepayments, cash, deferred income and provisions. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole. The reporting units where we performed audit work accounted for 82% of Group revenue, 80% of Group profit before tax and all material balance sheet items.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£315,000 (2013: £432,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	Consistent with last year, we applied this benchmark as a generally accepted auditing practice applicable for a trading Group of companies.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15,000 (2013: £22,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 11, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on pages 7 and 8, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 17 and 18, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 and 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2015

Consolidated

Income Statement *for the year ended 31 December 2014*

	Note	Year ended 31 Dec 2014 Before non-underlying items	Non-underlying items	Total	Year ended 31 Dec 2013 Before non-underlying items	Non-underlying items	Total
		£000	£000	**£000**	£000	£000	£000
Revenue	1	29,814	–	**29,814**	29,824	–	29,824
Operating costs	1, 2	(22,435)	(1,218)	**(23,653)**	(20,755)	(381)	(21,136)
Operating profit	2	7,379	(1,218)	**6,161**	9,069	(381)	8,688
Finance income	4	196	–	**196**	119	–	119
Finance costs	4	(591)	–	**(591)**	(119)	–	(119)
Net finance costs		(395)	–	**(395)**	–	–	–
Profit before income tax		6,984	(1,218)	**5,766**	9,069	(381)	8,688
Income tax expense	5	(1,394)	(259)	**(1,653)**	(2,250)	–	(2,250)
Profit for the year		5,590	(1,477)	**4,113**	6,819	(381)	6,438
Earnings per share							
Basic	6			**5.5p**			7.9p
Diluted	6			**5.1p**			7.7p

The accounting policies and notes on pages 52 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement

microgen

Of Comprehensive Income *for the year ended 31 December 2014*

	Note	Group Year ended 31 Dec 2014 £000	Group Year ended 31 Dec 2013 £000
Profit for the year		**4,113**	6,438
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value loss on hedged financial instruments	22	**(474)**	(7)
Currency translation difference	23	**(139)**	75
Other comprehensive income for the year, net of tax		**(613)**	68
Total comprehensive income for the year		**3,500**	6,506

The accounting policies and notes on pages 52 to 91 are an integral part of these consolidated financial statements.

Balance Sheets *at 31 December 2014*

	Note	Group As at 31 Dec 2014 £000	Group As at 31 Dec 2013 £000	Company As at 31 Dec 2014 £000	Company As at 31 Dec 2013 £000
ASSETS					
Non-current assets					
Property, plant and equipment	10	**4,863**	5,022	**–**	–
Goodwill	8	**41,774**	41,774	**–**	–
Intangible assets	9	**1,290**	–	**–**	–
Investments in subsidiaries	11	**–**	–	**41,739**	40,909
Deferred income tax assets	12	**771**	752	**–**	–
		48,698	47,548	**41,739**	40,909
Current assets					
Trade and other receivables	13	**3,155**	5,049	**122**	154
Financial assets - derivative financial instruments	18	**–**	94	**–**	–
Current tax assets		**–**	–	**22**	–
Cash and cash equivalents	14	**40,896**	40,200	**28,917**	29,642
		44,051	45,343	**29,061**	29,796
Total assets		**92,749**	92,891	**70,800**	70,705
LIABILITIES					
Current liabilities					
Financial liabilities					
– borrowings	16	**(3,000)**	(3,000)	**–**	–
– derivative financial instruments	18	**(427)**	(47)	**–**	–
Trade and other payables	15	**(18,812)**	(18,186)	**(7,641)**	(9,334)
Current income tax liabilities		**(499)**	(701)	**–**	–
Provisions for other liabilities and charges	17	**(15)**	(33)	**–**	–
		(22,753)	(21,967)	**(7,641)**	(9,334)
Net current assets		**21,298**	23,376	**21,420**	20,462
Non-current liabilities					
Financial liabilities - borrowings	16	**(13,250)**	(16,250)	**–**	–
Provisions for other liabilities and charges	17	**(261)**	(269)	**–**	–
		(13,511)	(16,519)	**–**	–
NET ASSETS		**56,485**	54,405	**63,159**	61,371
SHAREHOLDERS' EQUITY					
Share capital	19	**3,730**	3,724	**3,730**	3,724
Share premium account	20	**12,049**	12,037	**12,049**	12,037
Capital redemption reserve	21	**1,558**	1,558	**1,558**	1,558
Other reserves	22	**36,547**	37,021	**20,177**	20,177
Retained earnings	23	**2,601**	65	**25,645**	23,875
TOTAL EQUITY		**56,485**	54,405	**63,159**	61,371

The accounting policies and notes on pages 52 to 91 are an integral part of these consolidated financial statements.

The financial statements on pages 46 to 91 were authorised for issue by the Board of Directors on 24 February 2015 and were signed on its behalf by:

Martyn Ratcliffe
Director

Philip Wood
Director

Consolidated Statement
Of Changes in Shareholders' Equity

for the year ended 31 December 2014

	Note	Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	Total equity £000
		Attributable to owners of the Parent					
Group							
Balance at 1 January 2013		**4,078**	**11,885**	**10,529**	**1,152**	**37,028**	**64,672**
Profit for the year		–	–	6,438	–	–	**6,438**
Cash flow hedges							
– net fair value losses in the year	22	–	–	–	–	(7)	**(7)**
Exchange rate adjustments	23	–	–	75	–	–	**75**
Total comprehensive income for the year		–	–	6,513	–	(7)	**6,506**
Shares issued under share option schemes	19-20	52	152	–	–	–	**204**
Own shares purchased and cancelled	19, 23	(406)	–	(10,269)	406	–	**(10,269)**
Share options – value of employee service	23	–	–	157	–	–	**157**
Deferred tax on financial instruments	23	–	–	9	–	–	**9**
Deferred tax on share options	23	–	–	7	–	–	**7**
Corporation tax on share options	23	–	–	135	–	–	**135**
Dividends to equity holders of the company	7	–	–	(7,016)	–	–	**(7,016)**
Total contributions by and distributions to owners of the company recognised directly in equity		(354)	152	(16,977)	406	–	**(16,773)**
Balance at 31 December 2013		**3,724**	**12,037**	**65**	**1,558**	**37,021**	**54,405**
Profit for the year		–	–	4,113	–	–	**4,113**
Cash flow hedges							
– net fair value losses in the year	22	–	–	–	–	(474)	**(474)**
Exchange rate adjustments	23	–	–	(139)	–	–	**(139)**
Total comprehensive income for the year		–	–	3,974	–	(474)	**3,500**
Shares issued under share option schemes	19-20	6	12	–	–	–	**18**
Share options – value of employee service	23	–	–	830	–	–	**830**
Deferred tax on financial instruments	23	–	–	76	–	–	**76**
Deferred tax on share options	23	–	–	92	–	–	**92**
Corporation tax on share options	23	–	–	23	–	–	**23**
Dividends to equity holders of the company	7	–	–	(2,459)	–	–	**(2,459)**
Total contributions by and distributions to owners of the company recognised directly in equity		6	12	(1,438)	–	–	**(1,420)**
Balance at 31 December 2014		**3,730**	**12,049**	**2,601**	**1,558**	**36,547**	**56,485**

The accounting policies and notes on pages 52 to 91 are an integral part of these consolidated financial statements.

Company Statement

Of Changes in Shareholders' Equity

for the year ended 31 December 2014

		Attributable to owners of the Company					
	Note	Share capital £000	Share premium account £000	Retained earnings £000	Capital redemption reserve £000	Other reserves £000	**Total equity £000**
Company							
Balance at 1 January 2013		**4,078**	**11,885**	**14,031**	**1,152**	**20,177**	**51,323**
Profit for the year	23	–	–	26,972	–	–	**26,972**
Total comprehensive income for the year		–	–	26,972	–	–	**26,972**
Shares issued under share option schemes	19-20	52	152	–	–	–	**204**
Own shares purchased and cancelled	19, 23	(406)	–	(10,269)	406	–	**(10,269)**
Share options – value of employee service	23	–	–	157	–	–	**157**
Dividends to equity holders of the company	7	–	–	(7,016)	–	–	**(7,016)**
Total contributions by and distributions to owners of the company recognised directly in equity		(354)	152	(17,128)	406	–	**(16,924)**
Balance at 31 December 2013		**3,724**	**12,037**	**23,875**	**1,558**	**20,177**	**61,371**
Profit for the year	23	–	–	3,399	–	–	**3,399**
Total comprehensive income for the year		–	–	3,399	–	–	**3,399**
Shares issued under share option schemes	19-20	6	12	–	–	–	**18**
Share options – value of employee service	23	–	–	830	–	–	**830**
Dividends to equity holders of the company	7	–	–	(2,459)	–	–	**(2,459)**
Total contributions by and distributions to owners of the company recognised directly in equity		6	12	(1,629)	–	–	**(1,611)**
Balance at 31 December 2014		**3,730**	**12,049**	**25,645**	**1,558**	**20,177**	**63,159**

The accounting policies and notes on pages 52 to 91 are an integral part of these consolidated financial statements.

	Note	Group As at 31 Dec 2014 £000	Group As at 31 Dec 2013 £000	Company As at 31 Dec 2014 £000	Company As at 31 Dec 2013 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	24	**9,960**	8,103	**(1,968)**	(1,597)
Interest paid	4	**(591)**	(119)	**–**	–
Income tax paid		**(1,454)**	(1,728)	**–**	(2)
Net cash flows generated from/(used in) operating activities		**7,915**	6,256	**(1,968)**	(1,599)
Cash flows from investing activities					
Dividend received		**–**	–	**5,000**	28,673
Purchase of property, plant and equipment	10	**(612)**	(427)	**–**	–
Acquisition of subsidiary, net of cash acquired	25	**(1,230)**	–	**–**	–
Interest received		**169**	119	**123**	73
Net cash (used in)/generated from investing activities		**(1,673)**	(308)	**5,123**	28,746
Cash flows from financing activities					
Proceeds from bank loan		**–**	20,000	**–**	–
Net proceeds from issuance of ordinary shares		**18**	204	**18**	204
Dividends paid to company's shareholders	7	**(2,459)**	(7,016)	**(2,459)**	(7,016)
Repayments of loan		**(3,000)**	(750)	**–**	–
Amounts lent to from group undertakings		**–**	–	**(1,439)**	(3,016)
Purchase of own shares		**–**	(10,269)	**–**	(10,269)
Net cash (used in)/generated from financing activities		**(5,441)**	2,169	**(3,880)**	(20,097)
Net increase/(decrease) in cash and cash equivalents		**801**	8,117	**(725)**	7,050
Cash, cash equivalents and bank overdrafts at beginning of year		**40,200**	32,134	**29,642**	22,592
Exchange rate (losses) on cash and cash equivalents		**(105)**	(51)	**–**	–
Cash and cash equivalents at end of year	14	**40,896**	40,200	**28,917**	29,642

The accounting policies and notes on pages 52 to 91 are an integral part of these consolidated financial statements.

Accounting Policies

General Information

The Company is a public limited company incorporated and domiciled in England and Wales.

The Group consolidated financial statements were authorised for issue by the Board of Directors on 24 February 2015.

Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of Microgen plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRSs as adopted by the EU) and IFRS Interpretations Committee (formerly IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of financial assets and financial liabilities (including derivatives) which are recognised at fair value.

The presentation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements, are disclosed on page 64.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Changes in Accounting policy and disclosures

(a) **New standards, interpretations and amendments effective from 1 January 2014**

There are no new standards, amendments to standards and interpretations which are effective for annual periods beginning after 1 January 2014, which have been adopted in these financial statements. Note that not all new standards and amendments to standards and interpretations effective for the first time for periods beginning on or after 1 January 2014 effect the Group's annual consolidated financial statements.

The following new standards, amendments and interpretations are also effective for the first time in these financial statements. However, none have a material effect on the Group.

IAS 19 Defined benefit plans – Employee contributions (Amendments)

IAS 32 Financial instruments: Presentation Offsetting financial assets and financial liabilities (Amendments)

IAS 36 Impairment of assets - Recoverable amount disclosures for non-financial assets (Amendments)

IAS 39 Financial instruments: Recognition and measurement - Novation of derivatives and continuation of hedge accounting (Amendments)

Financial instruments – IFRS 9

Financial instruments hedge accounting – Amendment to IFRS 9

Consolidated financial statements – IFRS 10

Joint arrangements – IFRS 11

Disclosure of interests in other entities – IFRS 12

Transition guidance for IFRSs 10, 11 and 12 – Amendments to IFRS 10, 11 and 12

Exception from consolidation for 'investment entities' – Amendments to IFRS 10, IFRS 12 and IAS 27

Regulatory deferral accounts – IFRS 14

IFRIC 21 Levies in relation to IAS 37 Provisions, contingent liabilities and contingent assets

Annual improvements project 2012

Annual improvements project 2013

(b) New standards and interpretations that have not been early adopted.

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

None of the other new standards, amendments and interpretations, which are effective for periods beginning after 1 January 2014 and which have not been adopted early, are expected to have a significant effect on the consolidated financial statements of the Group.

Basis of consolidation

The financial statements consolidate the results of Microgen plc and its subsidiary undertakings ("subsidiaries"). The results of the subsidiaries acquired are included within the income statement from the date that control passes to the Group. They are de-consolidated from the date on which control ceases.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-Facto control may arise in circumstances where the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest.

The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profit and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group's two operating businesses derive their revenues from some or all of the following categories of revenue:

- software based activity relating to the Group's intellectual property (comprising software licences, maintenance, support, funded development and related consultancy) a contract or customer purchase order is in place;
- managed services (comprising principally of application management services); and
- general consultancy services.

The Group recognises revenue from each of these categories as follows:-

Software based activity
Software licences
The Group licences its software on an Initial Licence Fee, Perpetual Licence Fee or Annual Licence Fee basis. Licence Fees are first recognised when all of the following criteria are met:

- a contract or customer purchase order is in place;
- licence fee is fixed and determinable;
- evidence of software delivery has been received;
- collection of the debt is likely; and
- no vendor specific obligations relating to the delivered software are outstanding.

Once all of these criteria have been met, all of the Initial or Perpetual Licence Fee is recognised and recognition of the Annual Licence Fee commences. Annual Licence Fees are recognised in the period the services are provided, using a straight-line basis over the term of the licence. In assessing whether the collection of the debt is likely, any deferred payments for Licence Fees are recognised only if they are to be invoiced within 90 days of the period end and such invoice is payable within 30 days of the invoice date.

Software Maintenance
Fees relating to the maintenance of the Group's software are recognised in the period the services are provided, using a straight-line basis over the term of the maintenance agreement.

Support fees

Support fees are billed to customers where the Group's software is used by a customer as part of an IT solution and that customer contracts with the Group for support relating to that IT solution. The customer will commit to a minimum monthly, quarterly or annual fee that covers an agreed level of support and then agrees additional fees for support used over and above the minimum commitment. Revenue from support contracts are recognised as the fees are earned.

Funded development

Where a customer seeks enhancement to the core functionality of a Group product such enhancements will be considered for inclusion in the product road map. Where customers wish to accelerate the product development the Group may undertake funded development work. Revenue for funded development work is recognised on a percentage completed basis after deferring a proportion of the revenue to cover the resolution of any issues arising after the enhancement has been delivered to the customer. Once the enhancement has been accepted by the customer the deferred portion of the revenue is recognised.

IPR consultancy

The majority of consultancy services which relate to a project which includes the Group's software is contracted for on a time and materials basis and is recognised as such. Occasionally, small amounts of fixed priced or shared risk work is undertaken and this is recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development.

Managed Services

Where the Group provides application management services to a customer for a third party software product or solution revenue from these services are recognised as the services are performed.

General Consultancy

The majority of general consultancy services are contracted for on a time and materials basis, with revenue and costs recognised as incurred. Revenue and costs on fixed price and shared risk contracts are recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to key decision makers. These decision makers are responsible for allocating resources and assessing performance of the operating segments.

The primary segmental reporting is by operating business being Aptitude Software and Financial Systems.

The operating businesses are allocated central function costs in arriving at operating profit. Group overhead costs are not allocated into the operating businesses as the Board believes that these relate to Group activities as opposed to the operating businesses.

Non-underlying items

Items that are both material in size and unusual and infrequent in nature are presented as non-underlying items in the income statement. The directors are of the opinion that the separate recording of non-underlying items provides helpful information about the Group's underlying business performance.

Leasing

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

Property, plant and equipment

Property, plant and equipment is shown at historic purchase cost less accumulated depreciation and adjusted for any impairment. Land is not depreciated. Costs include expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on assets so as to write off the cost of property, plant and equipment less their residual value over their estimated useful economic lives by equal annual instalments at the following rates.

Freehold land and buildings	2 per cent
Leasehold improvements	10 – 20 per cent (or the life of the lease if shorter)
Plant and machinery	20 – 50 per cent
Fixtures and fittings	20 per cent

Estimation of the useful economic life includes an assessment of the expected rate of technological developments and the intensity at which the assets are expected to be used.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised on the balance sheet and subject to an annual impairment test. The carrying value of goodwill is cost less accumulated impairment. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combinations in which the goodwill arose. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to the income statement in the period in which they arise.

Intangible assets

Research and Development ("R&D")

Research expenditure is expensed to the income statement as incurred. Costs incurred on internal development projects relating to new or substantially improved products are recognised as intangible assets from the date upon which all IAS 38 criteria have been satisfied.

In assessing the IAS 38 criteria it is considered that the technical feasibility of development has only been satisfied once the product is deployed into a live customer environment and thereafter development expenditure is minimal, therefore all research and development costs have been expensed when incurred.

Externally acquired software intellectual property rights

Rights in externally acquired software assets are capitalised at cost and amortised over their estimated useful economic life. Useful economic life is assessed on an individual basis.

In process R&D

In process R&D is recognised only on acquisition. The fair value is derived based on time spent on the project at an average daily cost rate. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed on an individual basis. Amortisation is charged on a straight line basis over the estimated useful economic life of the assets.

Customer relationships

Customer relationships are recognised only on acquisition. The fair value is derived based on discounted cash flows from estimated recurring revenue streams. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed on an individual basis. Amortisation is charged on a straight line basis over the estimated economic useful life of the assets.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Interest costs

Interest costs are recognised on a time-proportion basis using the effective interest method.

Impairment of non-financial assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Any impairment of goodwill is not reversed.

Investments

Investments in subsidiaries are stated in the financial statements of the Company at cost less any provision for impairment.

Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short term, highly liquid investments with original maturities of three months or less.

Share-based payments

The Group operates share-based compensation plans that are equity settled. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Group income statement over the vesting period with a corresponding adjustment to equity. The expense in relation to options granted on 18 November 2013 (details can be found on page 67) is shown within non-underlying items.

No charge is taken to the Company income statement as share options are treated in a similar manner to capital contributions with an addition to investments as all employees are employed by subsidiary companies.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The option pricing model used is the Monte Carlo pricing model.

Foreign currency

Items included within the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in sterling, which is the Group's functional and presentation currency.

Foreign transactions are translated into the functional currency at the exchange rate ruling when the transaction is entered into. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the balance sheet of each overseas subsidiary is translated at the closing rate at the date of the balance sheet, and the income and expenses for each income statement are translated at the average exchange rate for the period. Exchange gains and losses arising thereon are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign subsidiaries are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Pensions

The Group operates defined contribution retirement benefit plans in respect of its UK employees. Employee and employer contributions are based on basic earnings for the current year. The schemes are funded by payments to a trustee-administered fund completely independent of the Group's finances. The expense is recognised on a monthly basis as accrued. The Group has no further payment obligations once the contributions have been paid.

Current and deferred income tax

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Trade receivables

Trade receivables are recognised initially at fair value and to the extent that it is deemed necessary are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other operating costs.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provisions for other liabilities and charges

Provisions are created for vacant or sublet properties when the Group has a legal obligation for future expenditure in relation to onerous leases. The provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Borrowings

Borrowings are initially stated at the amount of the net proceeds after deduction.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or in respect of interim dividends when they are paid.

Dividend income

Dividend income to the Company received from subsidiary investments is recognised in the Company income statement in the period in which it is paid.

Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. At the year-end the Group has designated its derivatives as a hedge of the cost of a highly probable forecasted transaction commitment ('cash flow hedge'). Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are not recognised in equity, rather they are recognised immediately in profit or loss.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IAS 39, any change in assets or liabilities is recognised immediately in the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement.

Financial Risk Management

The Group's trading, multi-national operations and debt financing expose it to financial risks that include the effects of changes in foreign currency exchange rates, credit risk, liquidity and interest rates.

The Group manages these risks so as to limit any adverse effects on the financial performance of the Group.

(a) Market risk – Foreign exchange

The Group's major foreign exchange exposures are to the Polish Zloty, South African Rand and US Dollar, arising from its trading subsidiaries in Europe, South Africa and the USA. Group policy in this area is to eliminate foreign currency cash flows between Group companies once the size and timing of transactions can be predicted with sufficient certainty. Since April 2007 this has been achieved by hedging Polish Zloty cash outflows 12 months in advance by using forward foreign currency contracts. These have the effect of fixing the sterling amount of Polish Zlotys to be paid in the future. The average remaining life of the forward exchange contracts at 31 December 2014 was 6 months (2013: 6 months).

Given the above policy, the table below approximates the impact on the Group's profit before tax of a 5% exchange rate movement (strengthening of sterling against the specified currency) of the Group's major non sterling trading currencies during the year.

	2014 £000	2013 £000
Polish Zloty gain	**46**	11
South African Rand loss	**(34)**	(53)
US Dollar loss	**(93)**	(125)
	(81)	(167)

For a 5% weakening of sterling against the relevant currency, there would be a comparable but opposite impact on the profit.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the analysis does not reflect management's proactive monetary measures for exchange risk.

(b) Market risk – Interest rate

The Group's major interest rate exposures arise from interest earned on its cash balances.

The Group's policy in this area is to maximise the interest return on cash balances (subject to the constraints imposed by the need to limit credit and liquidity risk as detailed below). In respect of interest payable on borrowings, it is the Group's policy to enter into an interest rate swap so that there is no change in interest payable pursuant to changes in interest rates.

Given the above policies the table below approximates the impact on the Group's profit before tax of a increase of 100 basis points in interest rates during the year.

	2014 £000	2013 £000
Increase in interest receivable on cash balances	**383**	314

For a decrease of 100 basis points in interest rates, there would be a comparable but opposite impact on profit.

(c) Credit risk

The Group's major credit risk exposures arise from its cash and trade receivable balances. The Group's policies in this area are:

– in respect of cash balances to ensure that deposits are always held across at least 2 financial institutions; and

– in respect of trade receivables, the client or prospective client's credit risk is assessed at the commencement of any new project with payment terms agreed which are appropriate. Regular receivable reports are provided to senior management.

The table below shows the credit rating and balance of the six major counterparties at the balance sheet date:

Counterparty	**Current Rating (Moody's)**	**31 December 2014 Balance £000**	31 December 2013 Balance £000
Bank A	**Baa1**	**35,320**	35,068
Bank B	**A2**	**1,558**	1,550
Bank C	**A1**	**1,538**	1,529
		38,416	38,147
Customer A	**Baa2**	**542**	970
Customer B	**A1**	**347**	859
Customer C	**Ba3**	**254**	158
		1,143	1,987

(d) Liquidity risk

The Group's major liquidity exposures arise from the need to settle its trade, employee and taxation liabilities as they fall due.

Whilst the Group is comfortably able to finance all of these payments out of operating cash flows, policies are in place to further limit exposure to liquidity risk:

– surplus cash is never deposited for maturities of longer than 110 days; and

– uncommitted facilities will be entered into to support any specific expansion opportunities that arise.

Management monitors forecasts of the Group's liquidity reserve on the basis of expected cash flow. The Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2014	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**
Borrowings	**3,000**	**3,000**	**10,250**
Derivative financial instruments	**427**	**–**	**–**
Trade and other payables	**17,649**	**–**	**–**
	21,076	**3,000**	**10,250**

At 31 December 2013	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**
Borrowings	3,000	3,000	13,250
Derivative financial instruments	47	–	–
Trade and other payables	17,195	–	–
	20,242	3,000	13,250

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into the relevant maturity groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2014	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**
Forward foreign exchange contracts – cash flow hedges			
Outflow	**(3,820)**	**–**	**–**
Inflow	**3,597**	**–**	**–**
Interest rate swap – cash flow hedges			
Outflow	**(490)**	**(393)**	**(453)**
Inflow	**490**	**393**	**453**
	(223)	**–**	**–**

At 31 December 2013	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Forward foreign exchange contracts – cash flow hedges			
Outflow	(3,259)	–	–
Inflow	3,263	–	–
Interest rate swap – cash flow hedges			
Outflow	(587)	(490)	(846)
Inflow	587	490	846
	4	–	-

Fair value estimation

Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

Financial instruments measured at fair value

The fair value hierarchy of the financial instruments measures at fair value is provided below.

	Level 2 inputs	
	31 December 2014 £000	31 December 2013 £000
Financial Assets		
Derivative financial assets (designated hedge instruments)	–	94
	–	94
Financial Liabilities		
Derivative financial liabilities (designated hedge instruments)	427	47
	427	47

The derivative financial assets and liabilities have been valued using the market approach and are considered to be Level 2 inputs. There were no changes to the valuation techniques used in the period. There were no transfers between levels during the period.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

We manage the capital structure based on the economic conditions and the risk characteristics of the Group. The Board reviews the capital structure regularly. No changes were made to our objectives and processes during 2014.

Our general funding policy is to raise long term debt when required to meet the anticipated requirements of the Group.

A loan was entered into by Microgen Financial Systems Limited, a wholly owned subsidiary of Microgen plc for £20,000,000 in 2013 of which £16,250,000 remains outstanding at 31 December 2014 (2013: £19,250,000). Details of the loan, the loan securities and operating covenants are given in note 16. Microgen Financial Systems Limited has complied with the externally imposed capital requirements to which it is subject. There are no further capital covenants to which the Group or the Company are subject.

The Group completed a £10,000,000 share tender offer in 2013, details of which are provided in note 19.

Critical Accounting Estimates and Judgements

(a) Impairment of freehold land and buildings

The Group has carried out an impairment review on the carrying value of its freehold land and buildings. Following the review performed in 2009, which resulted in an impairment of £896,000, the directors have not received any market information either in 2013 or 2014 to require an adjustment to the impairment provision established in 2009.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The discount rate applied in the value in use calculation approximates to the Group's Weighted Average Cost of Capital.

The Group annually reviews the goodwill valuation based on various scenarios and each of these scenarios have different growth rate assumptions. The growth rate assumptions are in relation to periods covered by Board approved plans.

Impairments recognised during the year are performed against the carrying value of goodwill. The impairment is recognised in the income statements in the period which it is deemed to arise.

(c) Impairment of investments

The Group has also carried out an impairment review on the value of investments held in the Company. Where the investment is held in a company which has an ongoing trade, the value is derived by a value in use calculation of the cash generating units. This is done on a similar basis to that used in the impairment of goodwill calculation as detailed above and is therefore subject to the same estimates by management. Where the investment is held in a company which is no longer trading, the value is derived from the carrying value of the net assets on the balance sheet of that entity.

(d) Taxation

The actual tax the Group pays on its profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are then recognised in financial statements. The Group believes the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement.

Deferred tax assets and liabilities require management judgement in determining the amount to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

1 **Segmental Information**

Business segments

The Board has determined the operating segments based on the reports it receives from management to make strategic decisions.

The segmental analysis is split into the Aptitude Software and Financial Systems operating businesses.

The principal activity of the Group throughout 2013 and 2014 was the provision of IT services and solutions, including software based activity generating the majority of its revenue from software licences, maintenance, support, funded development and related consultancy.

The operating businesses are allocated central function costs in arriving at operating profit/(loss). Group overhead costs are not allocated into the operating businesses as the Board believes that these relate to Group activities as opposed to the operating businesses.

(a) Revenue and operating profit by operating business

Year ended 31 December 2014	**Aptitude Software £000**	**Financial Systems £000**	**Group £000**	**Total £000**
Revenue	15,395	14,419	–	**29,814**
Operating costs	(14,193)	(6,969)	–	**(21,162)**
Operating profit before Group overheads	1,202	7,450	–	**8,652**
Unallocated Group overheads			(1,273)	**(1,273)**
Operating profit before non-underlying operating costs				**7,379**
Non-underlying operating costs	–	(388)	(830)	**(1,218)**
Operating profit/(loss)	**1,202**	**7,062**	**(2,103)**	**6,161**
Net finance cost				**(395)**
Profit before tax				**5,766**
Income tax expense				**(1,653)**
Profit for the year				**4,113**

Year ended 31 December 2013	**Aptitude Software £000**	**Financial Systems £000**	**Group £000**	**Total £000**
Revenue	14,676	15,148	–	**29,824**
Operating costs	(11,839)	(7,042)	–	**(18,881)**
Operating profit before Group overheads	2,837	8,106	–	**10,943**
Unallocated Group overheads			(1,874)	**(1,874)**
Operating profit before non-underlying operating costs				**9,069**
Non-underlying operating costs	–	(285)	(96)	**(381)**
Operating profit/(loss)	**2,837**	**7,821**	**(1,970)**	**8,688**
Net finance income				**–**
Profit before tax				**8,688**
Income tax expense				**(2,250)**
Profit for the year				**6,438**

1. **Segmental Information (continued)**

(b) **Other information**

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Year ended 31 December 2014				
Capital expenditure				
– property, plant and equipment (note 10)	**420**	**45**	**147**	**612**
Depreciation (note 10)	**(439)**	**(104)**	**(204)**	**(747)**

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Year ended 31 December 2013				
Capital expenditure				
– property, plant and equipment (note 10)	311	47	69	427
Depreciation (note 10)	(442)	(87)	(261)	(790)

(c) **Balance sheet**

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Year ended 31 December 2014				
Consolidated total assets	**19,519**	**41,411**	**31,819**	**92,749**
Consolidated total liabilities	**(8,175)**	**(27,426)**	**(663)**	**(36,264)**
	11,344	**13,985**	**31,156**	**56,485**

	Aptitude Software £000	Financial Systems £000	Group £000	Total £000
Year ended 31 December 2013				
Consolidated total assets	21,510	39,662	31,719	92,891
Consolidated total liabilities	(7,248)	(30,421)	(817)	(38,486)
	14,262	9,241	30,902	54,405

Capital expenditure comprises additions to property, plant and equipment and intangible assets, excluding additions resulting from acquisitions through business combinations.

1. Segmental Information (continued)

(d) Geographical segments

The Group has two geographical segments for reporting purposes, the United Kingdom and Ireland and the Rest of the World.

The following table provides an analysis of the Group's sales by origin and by destination.

	Sales revenue by origin		Sales revenue by destination	
	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000	**Year ended 31 Dec 2014 £000**	Year ended 31 Dec 2013 £000
United Kingdom and Ireland	**18,871**	19,686	**11,223**	11,666
Rest of World	**10,943**	10,138	**18,591**	18,158
	29,814	29,824	**29,814**	29,824

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Capital expenditure	
	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000	**Year ended 31 Dec 2014 £000**	Year ended 31 Dec 2013 £000
United Kingdom and Ireland	**86,920**	87,009	**269**	127
Rest of World	**5,829**	5,882	**343**	300
	92,749	92,891	**612**	427

The Company's business is to invest in its subsidiaries and, therefore, it operates in a single segment.

2 Operating Profit

The following items are included in operating costs:

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Employee benefit expense (note 3)	**16,466**	15,649
Depreciation (note 10)	**747**	790
Research and development expenditure credit	**(200)**	(129)
Other operating costs	**5,422**	4,445
Non-underlying operating costs:		
Share based payments on share options issued in 2013	**830**	96
Arrangement costs for loan establishment	**12**	285
Acquisition and associated restructuring costs	**209**	–
South African reorganisation costs	**167**	–
	23,653	21,136

The UK government in the Finance Act 2013 introduced a research and development expenditure credit scheme with effect from 1 April 2013. The credit is calculated at 10% of qualifying research and development expenditure.

2 Operating profit (continued)

Profit from operations has been arrived at after charging/(crediting):

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Net foreign exchange losses/ (gains)	**154**	(69)
Research, development and support costs – Aptitude Software	**4,275**	3,539
Research, development and support costs – Financial Systems	**2,178**	2,156
Depreciation of property, plant and equipment (note 10)	**747**	790
Operating lease rentals payable:		
– plant and machinery	**30**	30
– other	**734**	629
Repairs and maintenance expenditure on property, plant and equipment	**232**	198

During the year the group obtained the following services from the Group's auditors at costs as detailed below:

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements	**95**	95
Fees payable to the Company's auditors and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	**44**	37
– corporation and sales tax services	**79**	84
– overseas secondment services	**102**	129
	320	345

The Company's auditors perform tax return services for the Group's employees in circumstances where the employees have overseas tax filling requirements pursuant to working on overseas projects. These costs are included in the row entitled 'overseas secondment services'.

A description of the work of the Audit Committee is included in the corporate governance statement on pages 17 to 18 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

3 Employees and directors

	Group Year ended 31 Dec 2014 £000	Group Year ended 31 Dec 2013 £000
Employee benefit expense during the year including contractors		
Wages and salaries	**14,830**	13,970
Social security costs	**1,224**	1,181
Other pension costs (note 28)	**412**	437
Share based payment (note 27)	**–**	61
	16,466	15,649
Non-underlying share based payment cost on share options issued in 2013 (note 27)	**830**	96
	17,296	15,745

Average monthly number of employees (including directors and external contractors) for the Group:

	Group Year ended 31 Dec 2014 Number	Group Year ended 31 Dec 2013 Number
By location:		
United Kingdom and Ireland	**116**	122
Rest of World	**128**	111
	244	233

Headcount at 31 December 2014 was 257 (2013: 228) including contractors.

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Key management compensation:		
Short-term employee benefits	**1,969**	2,129
Post employment benefits	**62**	82
Share based payment	**723**	124
	2,754	2,335

Key management compensation for the Group includes the Board of the Company and senior executives within the Group.

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Directors		
Aggregate emoluments	**618**	849
Company contributions to money purchase pension scheme	**10**	20
	628	869

3 Employees and directors (continued)

Average monthly number of directors and senior executives were 14 (2013: 15).

The key management figures given above include the directors of Microgen plc.

The information on directors' remuneration required by the Companies Act and the Listing Rules of the Financial Conduct Authority is contained in the Directors' Remuneration Report on pages 23 to 39.

4 Net finance income

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Finance income		
Interest on bank deposits	**195**	119
Interest on Corporation Tax	**1**	–
	196	119
Finance cost		
Interest payable on bank borrowings	**(591)**	(119)
	(591)	(119)
Net finance cost	**(395)**	–

5 Income tax expense

Analysis of charge in the year	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Current tax:		
– tax charge on underlying items	**(1,388)**	(1,860)
– tax charge on non-underlying items	**(110)**	–
– prior year charge	**(17)**	(143)
Total current tax	**(1,515)**	(2,003)
Deferred tax (note 12):		
– tax credit/(charge) on underlying items	**14**	(327)
– tax charge on non-underlying items	**(149)**	–
– prior year (charge)/ credit	**(3)**	80
Total deferred tax	**(138)**	(247)
Income tax expense	**(1,653)**	(2,250)

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

As Finance Act 2013 had been substantively enacted at the balance sheet date, these financial statements account for the changes in tax rate from 23% to 21% with effect from 1 April 2014, and the further reduction in the tax rate to 20% with effect from 1 April 2015. The deferred tax balances continue to be measured at a rate of 20%.

5 Income tax expense (continued)

As disclosed in note 2, legislation has been introduced in Finance Act 2013 to allow large companies to claim Research and Development ("R&D") relief as a credit of 10% per cent of their qualifying R&D expenditure. The R&D Expenditure Credit ("RDEC") is taxable at the relevant corporation tax rate, and is included in the Group's taxable trading profits for the accounting period in which the R&D expenditure is incurred. The RDEC is available for qualifying R&D expenditure incurred on or after 1 April 2013. The RDEC scheme will initially be optional and will run in parallel with the existing super-deduction scheme until 31 March 2016. The RDEC will become mandatory on 1 April 2016. The Group has made an irrevocable election to claim the RDEC for qualifying R&D expenditure incurred on or after 1 April 2013 and therefore, these financial statements include an RDEC for qualifying expenditure incurred in the year to 31 December 2014 (2013: a claim under the existing super-deduction scheme for qualifying R&D expenditure incurred in the period 1 January to 31 March, and an RDEC for qualifying expenditure incurred in the period 1 April to 31 December).

The tax for the year is higher (2013: higher) than the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Profit on ordinary activities before tax	**5,766**	8,688
Tax at the UK corporation tax rate of 21.5% (2013: 23.25%)	**(1,240)**	(2,020)
Effects of:		
Adjustment to tax in respect of prior period	**(20)**	(63)
Adjustment in respect of foreign tax rates	**(63)**	(63)
Foreign exchange gains on	**(20)**	(111)
Research and development tax credit	**–**	10
Tax payable on restructuring of South African business	**(139)**	–
Deferred tax charge on restructuring of South African business	**(228)**	–
Expenses not deductible for tax purposes		
Share based payment expenses	**–**	(51)
Non-underlying costs not deductible	**(154)**	–
Other	**(3)**	(18)
Changes in UK Corporation Tax Rates	**–**	(55)
Recognition of tax losses	**214**	121
Total taxation	**(1,653)**	(2,250)

The total tax charge of £1,653,000 (2013: £2,250,000) represents 28.7% (2013: 25.9%) of the Group profit before tax of £5,766,000 (2013: £8,688,000).

After adjusting for the impact of non-underlying items, change in tax rates, share based payment charge and prior year tax charges the tax charge for the year of £1,568,000 (£2,286,000) represents 22.45% (2013: 25.21%), which is the tax rate used for calculating the adjusted earnings per share.

6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has dilutive potential ordinary shares in the form of share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 Dec 2014			Year ended 31 Dec 2013		
	Earnings £000	**Weighted average number of shares (in thousands)**	**Per-share amount pence**	Earnings £000	Weighted average number of shares (in thousands)	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**4,113**	**74,554**	**5.5**	6,438	81,649	7.9
Effect of dilutive securities:						
– share options	**–**	**5,954**	**(0.4)**	–	1,535	(0.2)
Diluted EPS	**4,113**	**80,508**	**5.1**	6,438	83,184	7.7

To provide an indication of the underlying operating performance per share the adjusted profit after tax figure shown below excludes non-underlying and other items and has a tax charge using the effective rate of 22.45% (2013: 25.21%).

	Year ended 31 Dec 2014		Year ended 31 Dec 2013	
	Basic EPS pence	**Diluted EPS pence**	Basic EPS pence	Diluted EPS pence
Earnings per share	**5.5**	**5.1**	7.9	7.7
Non-underlying items net of tax	**1.9**	**1.8**	0.3	0.3
Prior years' tax charge	**–**	**–**	0.1	0.1
Foreign exchange gains on intercompany balances tax charge	**–**	**–**	0.1	0.1
Tax losses recognised	**(0.2)**	**(0.2)**	(0.1)	(0.1)
Adjusted earnings per share	**7.2**	**6.7**	8.3	8.1

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Profit on ordinary activities before tax and non-underlying items	**6,984**	9,069
Tax charge at a rate of 22.45% (2013: 25.21%)	**(1,568)**	(2,286)
Adjusted profit on ordinary activities after tax	**5,416**	6,783
Prior years' tax charge	**(20)**	(63)
Non-underlying items net of tax	**(1,477)**	(292)
Foreign exchange gains on intercompany balances tax charge	**(20)**	(111)
Recognition of tax losses	**214**	121
Profit on ordinary activities after tax	**4,113**	6,438

7 Dividends

	2014 pence per share	2013 pence per share	2014 £000	2013 £000
Dividends paid:				
Interim dividend	**1.1**	1.1	**820**	908
Final dividend (prior year)	**2.2**	2.2	**1,639**	1,816
Special dividend (prior year)	**–**	5.2	**–**	4,292
	3.3	8.5	**2,459**	7,016
Proposed but not recognised as a liability:				
Final dividend (current year)	**2.2**	2.2	**1,641**	1,639

The proposed final dividend was approved by the Board on 24 February 2015 but was not included as a liability as at 31 December 2014, in accordance with IAS 10 'Events after the Balance Sheet date'. If approved by the shareholders at the Annual General Meeting this final dividend will be payable on 15 June 2015 to shareholders on the register at the close of business on 14 May 2015.

8 Goodwill

	31 Dec 2014 £000	31 Dec 2013 £000
Cost		
At 1 January and 31 December	**59,709**	59,709
Accumulated impairment		
At 1 January and 31 December	**(17,935)**	(17,935)
Net book amount	**41,774**	41,774

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	Aptitude Software £000	Financial Systems £000	Total £000
At 1 January and 31 December 2014	15,347	26,427	41,774

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

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate present value.

8 Goodwill (continued)

The Board-approved plans, prepared for the Financial Systems operating business, project a reduction in operating income of 7.5% per annum for the 4 years following the approved 2015 plan. Whilst part of the strategy for Financial Systems is to increase the proportion of the business derived from the Wealth Management sector through both organic growth and add-on acquisitions, no benefit of any potential acquisitions is included in the value in use calculation for Financial Systems.

Following the 2013 strategic review, a decision was made to increase investment significantly in the Aptitude Software operating business to focus the business on the growth of its recurring software-based revenues and not short-term profitability. The board approved plans for Aptitude Software project a growth in operating income of 30% per annum for the four years following the approved 2015 plan. The Board considers this to be an achievable growth rate given the increased investment in the business.

The terminal growth rates for the period after 2019 are no greater than 2.25% per annum for either business. The conversion to cash ratio is assumed to be 79% based on the UK corporation tax rate effective from 1 April 2014. The utilisation of deferred tax losses to offset the tax payable has not been considered. The discount rate applied to the CGUs was 9.8% (2013: 9.8%).

A proportional movement of 5% in any of the assumptions would not result in an impairment. It is possible that outcomes within the forthcoming financial years different to the key assumptions, could require a material adjustment to the carrying value of the Group's goodwill.

9 Intangible assets

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Cost			
At 1 January 2014	**876**	**876**	**1,752**
Acquisitions through business combinations	**113**	**1,177**	**1,290**
At 31 December 2014	**989**	**2,053**	**3,042**
Accumulated amortisation and impairment			
At 1 January 2014	876	876	1,752
At 31 December 2014	**876**	**876**	**1,752**
Net book amount			
At 31 December 2014	**113**	**1,177**	**1,290**

9 Intangible assets (continued)

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Net book value			
At 1 January 2013	**–**	**–**	**–**
Group			
Cost			
At 1 January 2013	876	876	1,752
At 31 December 2013	**876**	**876**	**1,752**
Accumulated amortisation and impairment			
At 1 January 2013	876	876	1,752
At 31 December 2013	**876**	**876**	**1,752**
Net book amount			
At 31 December 2013	**–**	**–**	**–**

The Company held no intangible assets during the year (2013: nil).

The externally acquired software IPR and in process R&D relates to expected future benefits of acquired software and development projects in progress at the date of acquisition. As at 31 December 2014 no internal research and development costs have been capitalised. The customer relationships relate to expected benefits obtained from recurring level of business from customers obtained as a result of acquisitions. The useful lifes of the intangible assets acquired during the year has been determined as 6 years in respect of software IPR and in process R&D and 10 years in respect of customer relationships.

Any amortisation charge in the year would be shown in operating costs.

10 Property, plant and equipment

	Freehold land and buildings £000	Leasehold improve-ments £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Group					
Cost					
At 1 January 2014	4,579	853	3,183	180	**8,795**
Additions	–	8	592	12	**612**
Acquired from acquisitions	–	–	12	–	**12**
Disposals	–	–	(11)	–	**(11)**
Exchange movements	–	(7)	(183)	(3)	**(193)**
At 31 December 2014	**4,579**	**854**	**3,593**	**189**	**9,215**
Accumulated depreciation					
At 1 January 2014	572	686	2,374	141	**3,773**
Charge for the year (note 2)	63	74	589	21	**747**
Disposals	–	–	(11)	–	**(11)**
Exchange movements	–	(4)	(150)	(3)	**(157)**
At 31 December 2014	**635**	**756**	**2,802**	**159**	**4,352**
Net book amount					
At 31 December 2014	**3,944**	**98**	**791**	**30**	**4,863**

	Freehold land and buildings £000	Leasehold improve-ments £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Group					
Net book value					
At 1 January 2013	**4,064**	**261**	**1,003**	**63**	**5,391**
Cost					
At 1 January 2013	4,579	848	2,890	203	8,520
Additions	–	9	418	–	427
Disposals	–	(4)	(109)	(14)	(127)
Exchange movements	–	–	(16)	(9)	(25)
At 31 December 2013	**4,579**	**853**	**3,183**	**180**	**8,795**
Accumulated depreciation					
At 1 January 2013	515	587	1,887	140	3,129
Charge for the year (note 2)	57	103	607	23	790
Disposals	–	(4)	(101)	(13)	(118)
Exchange movements	–	–	(19)	(9)	(28)
At 31 December 2013	**572**	**686**	**2,374**	**141**	**3,773**
Net book amount					
At 31 December 2013	**4,007**	**167**	**809**	**39**	**5,022**

The Company held no property, plant and equipment in the year (2013: nil).

11 Investments in subsidiaries

The Group did not hold any investments in 2014 (2013: nil).

	2014 £000	2013 £000
Company		
Cost		
At 1 January	**54,064**	53,907
Share based payments - share options granted to employees of subsidiaries	**830**	157
At 31 December	**54,894**	54,064
Impairment		
At 31 December	**13,155**	13,155
Net book amount		
At 31 December	**41,739**	40,909

The recoverable amounts of the investments are determined by calculating a value in use for the appropriate subsidiary investment. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the subsidiary investments.

Where the investment is held in a company which is no longer trading, the value is derived from the carrying value of the net assets on the balance sheet of that entity.

The Directors consider the value of the investments to be supported by their underlying assets.

Principal subsidiaries	**Country**	**Activity**
Aptitude Software Limited	England & Wales	Software and Services
Microgen (Channel Islands) Limited *	Guernsey	Software and Services
Microgen Wealth Management Systems Limited *	England & Wales	Software and Services
Microgen Banking Systems Limited *	England & Wales	Software and Services
Microgen Solutions Limited *	England & Wales	Software and Services
Microgen Asset Management Solutions Limited *	England & Wales	Software and Services
Aptitude Software Inc.*	USA	Software and Services
Microgen (South Africa) Pty Limited *	South Africa	Software and Services
Microgen Poland Sp. Z.o.o.*	Poland	Development
Microgen Management Services Limited	England & Wales	Employment and Group Services
Microgen Financial Systems Limited	England & Wales	Software and Services
Microgen (Jersey) Limited (formerly Unity Software Limited) *	Jersey	Software and Services

* Indirectly held by Microgen plc

The company owns 100% of the ordinary share capital and share premium in the above subsidiaries.

In December 2014 Microgen Wealth Management Systems Limited, a subsidiary of Microgen plc, acquired the share capital of Unity Software Limited. The company was subsequently renamed to Microgen (Jersey) Limited.

12. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2013: 20%).

The following are major deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Accelerated capital allowances £000	Short term timing differences £000	Share-based payments £000	Taxable trading losses £000	Total £000
Group					
At 1 January 2013	249	365	245	182	1,041
(Charge)/credit to income statement for the year for temporary timing differences	(3)	35	(81)	(61)	(110)
Charge to the income statement for reduction in tax rate	(32)	(48)	(33)	(24)	(137)
Total charge to income statement for the year	(35)	(13)	(114)	(85)	(247)
Credit to equity (note 22)	–	9	7	–	16
Exchange differences	–	(58)	–	–	(58)
At 31 December 2013	**214**	**303**	**138**	**97**	**752**
Total (charge)/credit to income statement for the year	(59)	10	–	59	10
Credit to equity (note 22)	–	76	92	–	168
Exchange differences	–	(10)	–	–	(10)
Non-underlying (charge)/credit to the income statement for the year	–	(210)	61	–	(149)
At 31 December 2014	**155**	**169**	**291**	**156**	**771**

Deferred tax assets have been recognised in respect of taxable losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

At the balance sheet date, the Group has unused tax losses of £5,978,000 (2013: £6,797,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £777,000 (2013: £484,000) of such losses which is the maximum the Group anticipates being able to utilise in the year ending 31 December 2015. No deferred asset has been recognised in respect of the remaining £5,201,000 (2013: £6,313,000) due to the unpredictability of future profit streams.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

There are no deferred tax liabilities at 31 December 2014 (2013: £nil).

Included in the deferred tax asset above is an amount of £353,000 which is expected to be utilised in the next twelve months.

13 Trade and other receivables

	Group 31 Dec 2014 £000	Group 31 Dec 2013 £000	Company 31 Dec 2014 £000	Company 31 Dec 2013 £000
Trade receivables	**2,214**	4,286	**–**	–
Less: provision for impairment of receivables	**(7)**	(60)	**–**	–
Trade receivables – net	**2,207**	4,226	**–**	–
Amounts owed by group undertakings	**–**	–	**22**	20
Other receivables	**91**	101	**13**	47
Prepayments and accrued income	**857**	722	**87**	87
	3,155	5,049	**122**	154

Amounts due from group undertakings are unsecured and repayable on demand.

An impairment provision for all past due trade receivables is maintained as the Group's experience is that a proportion of all such receivables may not ultimately be collectable.

Within the trade receivables balance of £2,214,000 (2013: £4,286,000) there are balances totalling £552,000 (2013: £791,000) which, at 31 December 2014, were overdue for payment. Of this balance £544,000 (2013: £778,000) has been collected at 24 February 2015 (2013: 25 February 2014).

	Trade receivables	
	31 Dec 2014	31 Dec 2013
The ageing of the trade receivables is as follows:	**£000**	£000
Not past due	**1,661**	3,495
Past due		
Less than one month overdue	**505**	759
One to two months overdue	**39**	20
Two to three months overdue	**6**	–
More than three months overdue	**3**	12
At 31 December	**2,214**	4,286

The Company had no trade receivables in either year.

Trade and other receivables are denominated in the following currencies:

	Group 31 Dec 2014 £000	Group 31 Dec 2013 £000	Company 31 Dec 2014 £000	Company 31 Dec 2013 £000
Sterling	**2,335**	3,932	**122**	154
South African Rand	**165**	14	**–**	–
United States Dollars	**432**	970	**–**	–
Other	**223**	133	**–**	–
	3,155	5,049	**122**	154

13 Trade and other receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

	Group 31 Dec 2014 £000	Group 31 Dec 2013 £000
At 1 January	**60**	61
Receivables written off as uncollectable	**(8)**	(4)
(Credited)/charged to income statement	**(45)**	3
At 31 December	**7**	60

Creation and reversals of the provision for impaired trade receivables have been included in the income statement under other operating costs. Non-trade receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each receivable class mentioned above. No collateral is held as security against these assets.

The Company does not have any provisions for impairments of trade receivables (2013: nil).

14 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group 31 Dec 2014 £000	Group 31 Dec 2013 £000	**Company 31 Dec 2014 £000**	Company 31 Dec 2013 £000
Sterling	**39,517**	39,155	**28,917**	29,642
South African Rand	**435**	560	**–**	–
United States Dollar	**744**	242	**–**	–
Polish Zloty	**200**	243	**–**	–
Cash at bank and in hand	**40,896**	40,200	**28,917**	29,642

The effective interest rate on short term deposits was 0.5% (2013: 0.38%).

15 Trade and other payables

	Group 31 Dec 2014 £000	Group 31 Dec 2013 £000	Company 31 Dec 2014 £000	Company 31 Dec 2013 £000
Trade payables	**406**	532	**13**	265
Amounts owed to group undertakings	**–**	–	**7,575**	9,012
Other tax and social security payable	**1,163**	991	**–**	–
Other payables	**171**	55	**25**	25
Accruals	**1,866**	1,259	**28**	32
Deferred income	**15,206**	15,349	**–**	–
	18,812	18,186	**7,641**	9,334

The amounts owed to group undertakings are unsecured, interest free and repayable upon demand.

16 Financial liabilities

	Group 31 Dec 2014 £000	Group 31 Dec 2013 £000
Bank loan	**16,250**	19,250
The borrowings are repayable as follows:		
Within one year	**3,000**	3,000
In the second year	**3,000**	3,000
In the third to fifth years inclusive	**10,250**	13,250
	16,250	19,250
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(3,000)**	(3,000)
Amount due for settlement after 12 months	**13,250**	16,250

On 28 October 2013 Microgen Financial Systems Limited, a wholly owned subsidiary of Microgen plc, entered into a loan agreement with Royal Bank of Scotland plc for £20,000,000. The loan is secured solely against the assets of the Financial Systems operating business of the Group. Operating covenants are limited to the performance of the Financial Systems business only and are based on the net debt leverage, interest cover and a minimum cash balance of £3,000,000 held within the Financial Systems business. In the event of a default of the loan, Microgen plc has the option, but not the obligation, to remedy. The loan is repayable over five years with an annual capital repayment of £3,000,000 and a final repayment of £5,000,000 on the fifth anniversary of the loan agreement. The loan is denominated in Pound Sterling and carries interest at LIBOR plus 1.75%. The Group entered into an interest swap on 28 October 2013, effectively fixing the interest rate at 3.24% over a five year period.

The Company has nil borrowings at 31 December 2014 (2013: nil).

17 Provisions for other liabilities and charges

	Provisions	
	31 Dec 2014	31 Dec 2013
	£000	£000
Group		
At 1 January	**302**	298
Charged to income statement	**–**	13
Foreign exchange	**(26)**	(9)
At 31 December	**276**	302

Provisions have been analysed between current and non-current as follows:

	Provisions	
	31 Dec 2014	31 Dec 2013
	£000	£000
Current	**15**	33
Non-current	**261**	269
	276	302

£245,000 of the total provision at 31 December 2014 of £276,000 relates to the cost of dilapidations in respect of its occupied leasehold premises. Of the non-current provision, £261,000 is expected to unwind within 2 to 5 years (2013: £269,000).

18 Financial instruments

At the balance sheet date, the total notional amount of outstanding forward foreign exchange and the interest rate swap are:

	31 Dec 2014		31 Dec 2013	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Interest rate swaps – cash flow hedges	**–**	**179**	89	–
Forward foreign exchange contracts – cash flow hedges	**–**	**248**	5	47
	–	**427**	94	47

Total derivatives designated as hedging instruments

The company has no derivative financial instruments (2013: nil).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

18 Financial instruments (continued)

Currency derivatives

The forward foreign exchange contracts are used to hedge the Group's forecasted Polish Zloty denominated costs over the next 12 months.

The notional principal amounts outstanding at the balance sheet date are as follows:

	31 Dec 2014 £000	31 Dec 2013 £000
Forward foreign exchange contracts - Polish Zloty	**3,820**	3,259

The forward exchange contracts mature evenly across the year on a monthly basis.

At 31 December 2014, the fair value of the Group's currency derivatives is estimated to be a liability of approximately £248,000 (2013: liability £42,000), comprising £nil assets (2013: £5,000) and £248,000 liabilities (2013: £47,000), based on quoted market values.

The forward contracts are designated as effective as cash flow hedges in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The fair value has been recognised in other comprehensive income and presented in the hedging reserve in equity. These will be transferred to the income statement over the next 12 months (2013: 12 months).

A loss of £127,000 (2013: profit £155,000) has been transferred to the income statement in respect of contracts which have matured during the year.

Fair Value interest rate swaps

The Group enters into floating-to-fixed interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at floating rates.

The notional principal amounts of the outstanding interest rate swap contracts designated as hedging instruments in fair value interest rate debt at 31 December 2014 amounts to £16,250,000 (2013: £19,250,000).

The fair value loss recognised in the consolidated statement of comprehensive income is £179,000 (2013: gain £89,000).

Additional disclosures are set out in the accounting policies relating to risk management.

18 **Financial instruments (continued)**

Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year-end exchange rates.

		31 Dec 2014		31 Dec 2013	
	Note	Book value £000	Fair value £000	Book value £000	Fair value £000
Group					
Cash at bank and in hand	14	**40,896**	**40,896**	40,200	40,200

		31 Dec 2014		31 Dec 2013	
	Note	Book value £000	Fair value £000	Book value £000	Fair value £000
Company					
Cash at bank and in hand	14	**28,917**	**28,917**	29,642	29,642

The carrying amount of short term payables and receivables is equal to their fair value.

Neither the Group or Company defaulted on any loans during the year. In addition the Group or Company did not breach the terms of any loan agreements during the year.

Credit quality of financial assets

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to the customer type.

Group	**31 Dec 2014 £000**	31 Dec 2013 £000
Trade receivables		
Banks and financial institutions	**1,249**	3,256
Other corporates	**412**	239
Total current trade receivables	**1,661**	3,495
Overdue trade receivables	**553**	791
Total trade receivables	**2,214**	4,286

Cash at bank and short-term bank deposits

Current Rating (Moody's)	**31 Dec 2014 £000**	31 Dec 2013 £000
A1	**1,539**	1,530
A2	**2,502**	2,035
Aa3	**1,100**	1,007
Baa1	**35,320**	35,068
Baa2	**435**	560
	40,896	40,200

None of the financial assets that are fully performing have been renegotiated in the last year.

19 Share capital

Group and company	31 Dec 2014 Number	31 Dec 2014 £000	31 Dec 2013 Number	31 Dec 2013 £000
Authorised ordinary shares of 5p each	**145,000,000**	**7,250**	145,000,000	7,250
Issued and fully paid:				
At 1 January	**74,498,502**	**3,724**	81,581,850	4,078
Issued under share option schemes	**112,167**	**6**	1,046,727	52
Share tender offer	**–**	**–**	(8,130,075)	(406)
At 31 December	**74,610,669**	**3,730**	74,498,502	3,724

In 2013 the Company repurchased 8,130,075 ordinary shares for a consideration of £10,000,000 via a tender offer. The shares were then cancelled.

The number of ordinary shares for which Microgen employees hold options and the period to which the options are exercisable are as follows (note 26):

Period	Year of grant	Exercise price	2014 Number	2013 Number
Between 28 April 2007 and 28 April 2014	2004	60p	–	12,500
Between 22 September 2008 and 22 September 2015	2005	70.50p	30,000	32,500
Between 15 June 2009 and 15 June 2016	2006	59.33p	9,999	9,999
Between 6 August 2010 and 6 August 2017	2007	5p	16,670	46,670
Between 6 August 2010 and 6 August 2017	2007	46.83p	43,336	43,336
Between 28 February 2011 and 28 February 2018	2008	48.17p	33,331	33,331
Between 2 May 2011 and 2 May 2018	2008	52.33p	1,000,000	1,000,000
Between 2 December 2011 and 2 December 2018	2008	43.50p	41,665	60,415
Between 2 December 2011 and 2 December 2018	2008	5p	18,334	18,334
Between 13 December 2013 and 13 December 2020	2010	5p	–	130,000
Between 3 March 2014 and 3 March 2021	2011	140p	60,218	70,000
Between 20 September 2014 and 20 September 2021	2011	5p	10,000	15,000
Between 18 November 2016 and 18 November 2023	2013	5p	4,417,500	4,433,750
Between 18 November 2018 and 18 November 2023	2013	5p	1,032,500	1,041,250
			6,713,553	6,947,085

20 Share premium account

Group and Company	£000
At 1 January 2013	11,885
Premium on shares issued during the year under the share option schemes	152
At 31 December 2013	12,037
Premium on shares issued during the year under the share option schemes	12
At 31 December 2014	**12,049**

21 Capital Redemption Reserve

	£000
Group and Company	
At 1 January 2013	1,152
On shares purchased and cancelled in 2013	406
At 31 December 2013 and 31 December 2014	**1,558**

22 Other reserves

	Derivatives hedge reserve £000	Merger reserve £000	Total £000
Group			
At 1 January 2013	54	36,974	37,028
Cash flow hedges			
– net fair value losses in the period net of tax	(7)	–	(7)
At 31 December 2013	47	36,974	37,021
Cash flow hedges			
– net fair value losses in the period net of tax	(474)	–	(474)
At 31 December 2014	**(427)**	**36,974**	**36,547**

	Merger reserve £000	Total £000
Company		
At 1 January 2013, 31 December 2013 and 31 December 2014	**20,177**	**20,177**

23 Retained earnings

	Group £000	Company £000
At 1 January 2013	10,529	14,031
Profit for the year	6,438	26,972
Share options – value of employee service (note 27)	157	157
Shares repurchased and cancelled	(10,269)	(10,269)
Deferred tax on financial instruments (note 12)	9	–
Deferred tax on share options (note 12)	7	–
Corporation tax on share options	135	–
Exchange rate adjustments	75	–
Dividends paid (note 7)	(7,016)	(7,016)
At 31 December 2013	65	23,875
Profit for the year	4,113	3,399
Share options – value of employee service (note 27)	830	830
Deferred tax on financial instruments (note 12)	76	–
Deferred tax on share options (note 12)	92	–
Corporation tax on share options	23	–
Exchange rate adjustments	(139)	–
Dividends paid (note 7)	(2,459)	(2,459)
At 31 December 2014	**2,601**	**25,645**

The profit for the financial year dealt with in the financial statements of the Company was £3,399,000 (2013: £26,972,000). As permitted by Section 408 of the Companies Act 2006, no separate income statement or statement of comprehensive income is presented in respect of the Company.

24 Cash flows from operating activities

Reconciliation of profit before tax to net cash generated from/(used in) operations:

	Group Year ended 31 Dec 2014 £000	Group Year ended 31 Dec 2013 £000	**Company Year ended 31 Dec 2014 £000**	Company Year ended 31 Dec 2013 £000
Profit before tax	**5,766**	8,688	**3,399**	26,964
Adjustments for:				
Depreciation	**747**	790	**–**	–
Loss on disposal of fixed assets	**–**	9	**–**	–
Research and development credit	**(200)**	–	**–**	–
Share-based payment expense	**830**	157	**–**	–
Finance income	**(196)**	(119)	**(145)**	(73)
Finance costs	**591**	119	**–**	–
Dividend income	**–**	–	**(5,000)**	(28,673)
Changes in working capital excluding the effects of acquisition:				
Decrease/(increase) in receivables	**1,937**	(1,886)	**34**	(21)
Increase/(decrease) in payables	**511**	341	**(256)**	206
(Decrease)/increase in provisions	**(26)**	4	**–**	–
Cash generated from/(used in) operations	**9,960**	8,103	**(1,968)**	(1,597)

25 Acquisitions

On 3 December 2014 Microgen acquired the entire share capital of Unity Software Limited ("Unity") (subsequently renamed Microgen (Jersey) Limited), a Jersey-based provider of wealth management software for the offshore finance industry. The consideration paid in respect of the issued share capital of Unity was £1,348,000 of which £1,300,000 was paid in cash on completion with the balance paid following the year end. Unity has been integrated into the Financial Systems business of the Group.

The net assets acquired in the transaction and the intangibles arising, are as follows:

	Carrying values pre acquisition £000	Fair value adjustments £000	Provisional fair value £000
Net assets acquired			
Intangible fixed assets	–	1,290	1,290
Property, plant and equipment	12	–	12
Trade and other receivables	43	–	43
Cash and cash equivalents	70	–	70
Trade and other payables	(31)	–	(31)
Deferred income	(36)	–	(36)
	58	1,290	1,348
Goodwill			–
Total consideration			1,348

Satisfied by	**£000**
Cash paid on completion	1,300
Cash paid following year end	48
	1,348

The intangible assets acquired as part of the acquisition of Unity can be analysed as follows:

	Provisional fair value £000
Software IPR and in process R&D	113
Customer relationships	1,177
	1,290

The fair value adjustments have been completed on a provisional basis. The Group will complete this review in 2015. As required under IFRS 3, the revenue and operating profit of the Group, on the basis that the Unity acquisition had been completed at the beginning of 2014, would have been £30,369,000 and £6,168,000 respectively.

26 Commitments and operating leases

	31 Dec 2014 £000	31 Dec 2013 £000
Commitments		
Group		
Contracts placed for future capital expenditure not provided in the financial statements	**–**	108

The Company has no unprovided financial commitments (2013: £nil).

26 Commitments and operating leases (continued)

Operating leases – minimum lease payments

The Group leases various offices under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group also leases plant and machines under non-cancellable operating lease agreements.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 Dec 2014		31 Dec 2013	
	Properties £000	**Other £000**	Properties £000	Other £000
Within one year	**698**	**3**	491	9
In the second to fifth year inclusive	**473**	**2**	1,035	5
	1,171	**5**	1,526	14

The Company had no operating lease commitments during the year (2013: £nil)

27 Share based payments

Performance Share Plan (PSP)

Under the 2006 Performance Share Plan (PSP), the Remuneration Committee is allowed to grant conditional allocations of par value options in the Company to key executives. The contractual life of an option is 10 years.

The PSP is considered a Long Term Incentive Plan (LTIP) award.

Awards granted prior to 2013 are exercisable from the third anniversary of the date of grant, subject to specific criteria being met. These performance conditions were structured so that 50% of awards were subject to an adjusted earnings per share target and 50% were subject to a total shareholder return target.

5,475,000 awards were granted on 18 November 2013. The performance conditions in respect of 3,000,000 of the awards for the directors are detailed on pages 37 and 38 of the Directors' Remuneration Report. The balance of 2,475,000 awards have performance conditions in line with those described for Mr Wood on page 38.

No options were granted in 2014 (2013: 5,475,000 awards granted).

At the year end there were 28 (2013: 30) employees currently participating in the scheme.

Exercise of an option is subject to continued employment.

27 Share based payments (continued)

Details of the share options outstanding under the PSP during the year are as follows:

	2014 Number	2014 Weighted average exercise price	2013 Number	2013 Weighted average exercise price
Outstanding at 1 January	**5,685,004**	**5p**	962,565	5p
Granted	**–**	**5p**	5,475,000	5p
Exercised	**(85,917)**	**5p**	(752,561)	5p
Lapsed	**(90,000)**	**5p**	–	0p
Forfeited	**(14,083)**	**5p**	–	0p
Outstanding at 31 December	**5,495,004**	**5p**	5,685,004	5p
Exercisable at 31 December	**45,004**	**5p**	195,004	5p

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 119.6p (2013: 118.0p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 8.85 years (2013: 9.75 years).

Share Option Plans

The Group has set up several Share Option Plans, under which the Remuneration Committee can grant options over shares in the Company to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. 15 employees (2013: 17) currently participate in these Plans.

Options granted under the Share Option Plans will become exercisable on the third anniversary of the date of grant, subject to specific criteria being met. The present criteria are based on a combination of factors including adjusted earnings per share and share price growth over a minimum period of three years.

Exercise of an option is subject to continued employment.

Details of the share options outstanding under the Share Option Plans during the year are as follows:

	2014 Number	2014 Weighted average exercise price	2013 Number	2013 Weighted average exercise price
Outstanding at 1 January	**1,262,081**	**57.07p**	1,612,247	55.86p
Exercised	**(26,250)**	**49.21p**	(294,166)	56.70p
Lapsed	**(7,500)**	**60.00p**	(56,000)	24.05p
Forfeited	**(9,782)**	**140.00p**	–	0p
Outstanding at 31 December	**1,218,549**	**56.56p**	1,262,081	57.07p
Exercisable at 31 December	**1,218,549**	**56.56p**	1,192,081	52.22p

27 **Share based payments (continued)**

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 123.6p (2013: 121.9p).

The options outstanding at the end of the year have an expected weighted average remaining contractual life of 3.39 years (2013: 4.37 years).

Included within the outstanding share options at 31 December 2014 under Share Option Plans and the PSP were outstanding share options of 6,450,000 (2013: 6,475,000) which whilst outside of the Association of British Insurers recommended limits, have been approved by the Company's shareholders.

The Group recognised total expenses of £830,000 (2013: £157,000) relating to equity-settled share-based payment transactions during the year. After deferred tax, the total charge in the income statement was £769,000 (2013: £44,000). There was a deferred tax credit of £92,000 (2013; £7,000) and a corporation tax credit of £23,000 (2013: £135,000) taken directly to equity.

28 **Retirement benefit schemes**

The Group operates defined contribution retirement benefit plans for qualifying employees in the UK. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The Group also operates defined contribution retirement benefit plans for its overseas employees with contributions up to 9.76% of basic salary.

The total expense recognised in the income statement of £412,000 (2013: £437,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2014, contributions of £23,000 (2013: £22,000) due in respect of the 2014 reporting year had not been paid over to the plans and were included within accruals. The amounts were paid over subsequent to the balance sheet date.

29 **Related party transactions**

Group

The following transactions were carried out with related parties:

During the year the Group entered into transactions with Sagentia Group plc. Microgen's Chairman, Martyn Ratcliffe, is Chairman of, and equity holder in Sagentia Group plc. An employee of Sagentia Limited (a subsidiary of Sagentia Group plc) provided administrative services to Microgen plc during the year and a cost of £15,000 (2013: nil) was charged to Microgen plc.

The Company acts as the Group's treasury vehicle and during the year borrowed a net £7,553,000 (2013: £8,992,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2014 (2013: nil), as defined by International Accounting Standard No 24 "Related Party Disclosures" other than key management compensation as disclosed in note 3.

Shareholder
Information

Shareholder Analysis Range	Number of Shareholders	Percentage of overall total	Number of shares	Percentage of overall total
1 - 1,000	599	56.5%	216,383	0.3%
1,001 – 5,000	255	24.0%	623,313	0.8%
5,001 – 50,000	145	13.7%	2,332,982	3.1%
50,001 – 500,000	39	3.7%	6,109,209	8.2%
500,000 and above	22	2.1%	65,328,782	87.6%
Totals	**1,060**	**100%**	**74,610,669**	**100%**

Investor Type	Number of shares	Percentage of overall total
Nominee Companies	50,120,287	67.2%
Private Shareholders	13,659,607	18.3%
Bank & Bank Nominees	7,058,303	9.5%
Pension Funds	3,558,121	4.7%
Limited Companies	207,499	0.3%
Other Institutions	3	0.0%
Deceased Shareholders	6,849	0.0%
	74,610,699	**100%**

Registered Office and Group Head Office

Microgen plc
Old Change House
128 Queen Victoria Street
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Telephone: 020 7496 8100
e-mail: investors@microgen.com

Registrar

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
e-mail: shareholdersenquiries@capita.co.uk

Microgen plc ordinary shares are listed on the main market of the London Stock Exchange.

Shareholders' enquiries

Enquiries regarding shareholdings or dividends should in the first instance be addressed to Capita Asset Services.

Please note that calls will cost 10p per minute plus network extras. Lines are open 9.00 am – 5.30 pm Monday to Friday, excluding public holidays.

Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 a.m. on 18 May 2015 at Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ. Details are given in a separate notice to shareholders enclosed with this Annual Report. A copy of the Notice of Annual General Meeting together with this Annual Report is posted on the Company's website www.microgen.com.

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