

Annual Report and
Financial Statements
2014

Contents

Strategic Report	4
• Chairman's Statement.....	4
• Finance Director's Report	6
• Key Performance Indicators.....	8
• Principal Risks and Uncertainties	8
• Corporate Responsibility	9
Report of the Directors.....	11
• Corporate Governance Report.....	14
• Board Committees	15
• Report of the Remuneration Committee.....	16
• Report of the Audit Committee	17
• Report of the Nomination Committee.....	18
• Directors' Responsibilities.....	18
• Approval	18
Independent Auditor's Report.....	19
Financial Statements.....	20-56
• Consolidated Income Statement	21
• Consolidated Statement of Comprehensive Income	22
• Consolidated Statement of Changes in Shareholders' Equity	23
• Company Statement of Changes in Shareholders' Equity.....	24
• Consolidated and Company Balance Sheet.....	25
• Consolidated and Company Statement of Cash Flows.....	26
• Notes to the Financial Statements	27-55

Strategic Report

Chairman's Statement

Sagentia Group plc ('Sagentia' or the 'Group') reports another satisfactory operating performance for the year ended 31 December 2014, particularly in the context of the volatile currency environment throughout the year. While comparisons to 2013 require adjustments to reflect a number of one-off events in the prior year, in summary, the first half of 2014 was challenging while the second half of the year returned to growth in the core consultancy business. Operating margins were exceptionally strong and the balance sheet remains very robust.

(Throughout this report, adjusted operating profit and margin excludes amortisation and impairment of intangible assets and share based payment charges).

Business summary and operational review

Sagentia Group plc provides outsourced science, product and technology development consultancy services to a wide range of markets. The majority of the Group's revenues are derived from projects operated on behalf of clients on a time and materials basis, although some smaller projects, providing technology advisory services, are undertaken on a fixed price model. The Group's operations are based primarily at the Group's freehold campus property in Harston, near Cambridge, with additional UK offices in London and Guildford, and US offices in Boston, Massachusetts, and Houston, Texas.

The Core Business segment of the Sagentia Group comprises two divisions, further information on which is available at www.sagentia.com:

- the *Product & Technology Development* division represents the majority of the business and is focussed on science, product and technology development;
- the *Technology Advisory* division provides technology advisory services to a number of market sectors. The division incorporates the OTM business acquired in 2013 and the newly acquired Oakland Innovation Limited.

For the year ended 31 December 2014, Group revenue was £28.3 million (2013: £30.6 million) although Core Consultancy Fees were in line with the prior year at £25.7 million (2013: £25.8 million). Adjusted operating profit of £5.4 million (2013: £5.7 million) reflected the strong adjusted operating margin of 19.1% (2013: 18.8%). The results in 2014 were negatively affected by the volatile currency environment with the average USD Sterling rate of 1.65 being materially higher than 2013 (1.56), an impact of £0.8 million in terms of revenue and £0.7 million in terms of profit. In addition, 2013 benefitted from an exceptionally strong first half of the year; a one-off licence of £0.4 million; and the Manage5Nines IT services business which has now been discontinued, while 2014 benefitted from a full year of the acquisition of OTM Consulting, acquired in July 2013. (Further detail is provided in the Finance Director's Report).

Revenue from the Group's Commercial customers accounted for 57% of Core Business revenue with the Medical customer

base accounting for 43% (2013: 54% and 46% respectively). The Group continues to have a high proportion (78%) of its consultancy revenue derived from international markets (2013: 82%), particularly North America which accounted for 61% (2013: 67%).

Cash balance at 31 December 2014 was £23.8 million (2013: £22.4 million) with net funds of £15.0 million (2013: £12.6 million), after cash outflow associated with share buybacks of £1.8 million. The Group's debt of £8.8 million at 31 December 2014 is secured only on the freehold property in Harston which has a current balance sheet carrying value of £13.6 million.

Strategic developments

At the end of 2013, the Board decided to wind down the Group's outsourced IT services business, Manage5Nines Limited. This business was a minor non-core legacy activity in an increasingly challenging market. In 2013, Manage5Nines contributed revenue of £1.1 million to the Group. This business was successfully wound down during the first half of the year, contributing revenue of £0.2 million.

On 18 February 2015, Sagentia acquired Oakland Innovation Limited ('Oakland') for a consideration of £5.0 million. Oakland is a Cambridge-based R&D consultancy specialising in technology innovation and market intelligence for the global consumer and healthcare markets. The business will become part of the Group's Technology Advisory business and will be relocated to the Group's facility in Harston.

Dividend and share liquidity

While the Board has evaluated a number of other potential acquisition opportunities of varying scale during the past year, in the absence of a major acquisition, the Board has reviewed the cash requirements of the business particularly in the context of the strong operational cash generation. As announced on 23 January 2015, the Board has considered a return of cash to shareholders and through the Company's broker consulted with a number of Sagentia's major shareholders regarding the appetite for participation in a tender offer. As a result, it is apparent that there would be limited take-up of a tender offer at a level that the Board could recommend, based on the share price over the six months prior to the announcement, and the Board has therefore given further consideration to balancing cash retention for investment in the future growth of the Company and returns to shareholders.

Through this process, the Board has reviewed the Company's dividend policy and in view of the strong cash generation of Sagentia, together with the exceptional asset base of the Group, the Board is proposing to substantially increase the dividend to 4.0 pence per share (2013: 1.1 pence), at a total cost of £1.5 million (2013: £0.4 million) based on the number of shares in issue at 28 February 2015. Such a yield, equivalent to approximately 3% (based on the Company's recent share price), should further enhance the investment returns for all Sagentia shareholders. The Board will retain its policy of a single dividend per annum and in the event of a major acquisition

Strategic Report continued

will review the dividend policy. Subject to shareholder approval, the dividend will be payable on 12 June 2015 to shareholders on the register at the close of business on 22 May 2015.

The Board believes that maintaining an institutional shareholder base is fundamental to the purpose of being quoted on the AIM market. Unfortunately, the lack of share liquidity is a challenge for many small cap listed companies and can be a deterrent to institutional investors. While broker market makers can provide some liquidity, it is unrealistic to expect them to balance relatively significant amounts of shares over extended periods. The consequence of this market imperfection is that many institutional investors are reluctant to invest in illiquid small cap shares, such as Sagentia, yet one of the primary reasons for a company being listed is to access capital when appropriate and placing shares with institutional investors is by far the most practical, cost-effective method of raising capital for a small cap company. Retaining an institutional investor base is therefore considered by the Board to be beneficial to shareholders, the Company, its employees and its customers.

Therefore, as in previous years, the Board will seek approval from shareholders at the Annual General Meeting ('AGM') for authority to acquire up to 10% of the issued share capital of the Company so that, if deemed appropriate and in the best interests of shareholders, the Company may undertake share purchases in the coming year. In addition, the Board will seek shareholder approval for an extension to this authority to acquire up to an incremental 10% of the issued share capital of the Company, subject to the aggregate cost of the share buyback under both authorities being capped at £10 million. Due to the shareholding of the Chairman (32.6% at 28 February 2015), these authorities will, as in previous years, be conditional on the passing of a general authority Panel Waiver by shareholders and on Takeover Panel approval of a waiver of Rule 9 of the UK Code on Takeovers and Mergers.

While buyback programmes can address short term sell-side liquidity, there is a reciprocal challenge for institutional investors in sourcing shares in small cap companies, where a relevant holding within a typical fund portfolio may require a shareholding in a company such as Sagentia of around 5%. Unfortunately share buyback programmes reduce supply liquidity exacerbating the market liquidity challenge in the medium term. Therefore, the Board has determined to consider providing supply liquidity through sale of the treasury shares acquired through the buyback programme. This will require approval of the standard resolution regarding pre-emption rights at the AGM, limited to 10% of the issued equity at the time of the AGM notice. This authority is generally used to facilitate small fund raisings but could be equally applicable to facilitate supply-side liquidity and, subject to such action being considered to be in the best interests of shareholders, the Board will consider using this authority for resale of treasury shares subject to the following:

- the Company's Broker having made reasonable endeavours to source supply in the open market;

- minimum volume of 1.0 million shares;
- the buyer having been identified to the Company; having long term investment intentions; and not holding more than 10% (directly or in association with any other holder) of the issued share capital after the transaction; and
- the price of the Treasury Shares sold being at prevailing market prices at the time.

The Board believes that this share liquidity programme, addressing both buy-side and sell-side liquidity, offers a potentially attractive mitigation to institutional investor concerns regarding small cap investments. It must be emphasised that the Board will only undertake these actions when they reasonably consider that the transaction will be in the best interests of shareholders and the Company will not be in breach of the Financial Services and Markets Act 2000 and other related regulations.

Summary

In summary, 2014 had a more challenging start than the prior year which, as previously reported, had been exceptionally strong. This was made more difficult by a rapidly deteriorating foreign exchange environment in the first half. However the second half of the year saw a return to organic growth in the core consultancy business, despite the negative currency impact. Through tight cost control, operating margins were above the Board's target and a satisfactory overall result for the year was achieved.

The integration of OTM Consulting, acquired in mid-2013, has been successful and the integration of Oakland is now in progress. The Board continues to evaluate corporate opportunities to accelerate the growth of Sagentia, although there can be no certainty that any transaction(s) will occur.

In the absence of a major acquisition, the Board has considered how best to deliver value for shareholders and is proposing specific measures, namely a very attractive dividend, increased share buyback programme and supply-side liquidity. Shareholders will have the opportunity to vote on these proposals at the Annual General Meeting, scheduled for 21 May 2015.

Martyn Ratcliffe
Chairman

Finance Director's Report

In the year ended 31 December 2014, the Group generated revenue of £28.3 million (2013: £30.6 million). Adjusted operating profit was £5.4 million (2013: £5.7 million), reflecting the tight cost control and high adjusted operating margin of 19.1% (2013: 18.8%). Reported operating profit was £4.7 million (2013: £5.4 million) and profit before tax was £4.2 million (2013: £4.9 million). (Adjusted operating profit and/or margin excludes amortisation and impairment of intangible assets and share based payment charges.)

A significant proportion of the Group's revenue is denominated in US Dollars and Euros and changes in exchange rates can have a significant influence on the financial performance. In 2014, £14.1 million of the Group revenue was denominated in US Dollars at an average exchange rate of 1.65 (2013: £13.9 million at 1.56). On a constant currency basis, if the 2013 GBP/USD exchange rate had prevailed throughout 2014, revenue and operating profit would have been £0.8 million higher and £0.7 million higher respectively.

At 31 December 2014, Sagentia had £17.6 million (2013: £20.9 million) of tax losses carried forward of which £9.3 million (2013: £12.6 million) relate to trading losses which are anticipated to be used to offset future trading profits. At 31 December 2013, all of these carried forward trading tax losses were recognised as a deferred tax asset in the balance sheet. This asset reduces as the tax losses are utilised, but the reported corporation tax charge on trading profits for the year ended 31 December 2014 cannot therefore be offset by newly recognised carried forward losses. Therefore, for the year ended 31 December 2014, the tax charge reported in the statutory accounts more closely reflects the nominal corporation tax rate with a corresponding effect on reported profit after tax and earnings per share.

The unrecognised tax losses of £8.3 million (2013: £8.3 million) include £2.3 million (2013: £2.3 million) of trading losses in Sagentia Inc and £4.3 million (2013: £4.3 million) of tax losses derived from excess management expenses in a subsidiary used for legacy investments (which have previously been fully impaired). This Company had net liabilities of £8.2 million at 31 December 2014 (2013: £8.2 million) and the excess management expenses can solely be utilised by this company against its future trading profits. The Group will only recognise these tax losses when it becomes probable that the tax losses can be utilised and only an insignificant amount of revenue was recognised in this subsidiary in the year ended 31 December 2014.

The accounting treatment of the tax losses has a significant effect on earnings per share and therefore, based on the average number of shares in issue during the year, adjusted basic earnings per share ('EPS') from continuing operations decreased to 10.6 pence (2013: 13.4 pence) and adjusted diluted EPS from continuing operations decreased to 9.6 pence (2013: 12.2 pence). This reduction is in line with the increase in the Company's corporation tax charge moving closer to the corporation tax rate for 2014 albeit that the cash outflow

related to tax is anticipated to be significantly below the reported tax cost. The Board anticipates that, in view of the trading tax losses carried forward, if the Group's profit profile remains similar to 2014, the Group's cash outflow related to tax will continue to be modest for the next two years, after which the tax cash flow will increase.

The Group reports its results under two business segments. The 'Core Business' represents all revenues derived from consultancy fees (excluding IT services) and project expenses recharged on consultancy projects, together with revenues from product sales and licence income. The 'Other' segment comprises fees and recharged project expenses derived from outsourced IT services (Manage5Nines Limited, a wholly owned subsidiary which was wound down during 2014) and property income.

Revenue from Core Business activities was £27.2 million (2013: £28.3 million) and Consultancy fees, which exclude recharged material revenues, product and licence income and other non-Core revenues, remained in line with 2013 at £25.7 million (2013: £25.8 million), of which £4.5 million (2013: £2.4 million) was derived from acquisitions made in 2013. Revenue from Core Business operations includes materials used in projects recharged to customers of £1.4 million (2013: £2.1 million), and product and licence revenue of £0.1 million (2013: £0.5 million, including a one-off licence of £0.4 million).

Other revenue includes property income from space let in the Harston Mill facility of £1.0 million (2013: £1.2 million), reflecting the increased space utilised by Sagentia. The Harston Mill property currently has a total of 9 tenants (2013: 8 tenants). Approximately 5,300 square feet (2013: 7,400), or 17% of the total lettable area was available at the beginning of 2015. Other revenue also includes IT Support (including materials) through Manage5Nines Limited totalling £0.2 million (2013: £1.1 million).

In September 2013, the Group entered into a new £10.0 million term loan with Lloyds TSB Bank plc ('Lloyds') for a term of five years with £5.0 million amortising and the remaining £5.0 million repayable at term. This loan is secured solely on the freehold property at Harston and subject to maintaining cash balances in excess of £2.0 million, the loan is not subject to operating covenants. The Group has also entered into a five year interest rate swap, the effect of which is to fix the interest rate on the new loan at approximately 3.9%. The Group adopted hedge accounting in the prior year under IFRS 9, *Financial Instruments*, however ceased to hedge account for the interest rate swap during the current financial year. The change in fair value of the interest rate swap from inception to balance sheet date of £203,000 was recognised in the Consolidated Income Statement in the year ended 31 December 2014 (2013: the change in fair value of £41,000 was recognised in reserves).

The Group has a strong balance sheet with shareholders' funds at 31 December 2014 of £33.4 million, equivalent to

89.6 pence per share (2013: shareholders' funds of £31.1 million equivalent to 80.6 pence per share) including the Group's freehold property in Harston. The freehold property in Harston was independently valued in July 2010 and August 2013 related to the associated bank loan. Under the assumptions used, including tenant covenant strength and market rents, the latest indicative valuation range for the building was between £12.9 million and £18.0 million. The Board has not adjusted the carrying value of the property on the balance sheet since 2010 which at 31 December 2014 was £13.6 million.

The gross cash position at 31 December 2014 was £23.8 million (2013: £22.4 million) and net funds were £15.0 million (2013: £12.6 million), after cash outflow of £1.8 million related to the share buyback programme. Net cash generated from operating activities was £4.9 million (2013: £3.9 million). Debtor days were 50 days (2013: 48 days) and combined debtor and WIP days were 12 (2013: 21).

Rebecca Hemsted
Finance Director

Key Performance Indicators

The key performance indicators ('KPIs') are profit and cash flow. Profitability of the business, with its relatively fixed cost base, is managed primarily via the review of revenue with secondary measures of consultant utilisation and daily fee rates. Working capital is reviewed via measures of debtor days and combined 'debtor and WIP' days. Performance against KPIs is reported in the Finance Director's Report.

Principal Risks and Uncertainties

In addition to the financial risks discussed in Note 3 and the effects on business performance related to changes in currency exchange rates noted in the Finance Director's Report, the Directors consider that the principal risks and uncertainties facing the Group and a summary of the key measures taken to mitigate those risks are as follows:

Potential downturn in the market for outsourced services

Sagentia is dependent on the global market for outsourced research and development services. An economic downturn or instability may cause customers to delay or cancel product development projects and/or related services, or to use internal resources to achieve their business goals.

The Group seeks to mitigate this risk by diversifying exposure across geographical markets; increasing the number of market sectors in which the Group operates; diversifying the type of customers with whom the Group operates (ranging from well-funded start-up companies to large multi-national corporates); increasing the range of service offerings that the Group provides; and marketing activities to inform current and prospective customers regarding the benefits of outsourced research and development services and Sagentia's proven ability to fulfill those objectives.

Dependence on key personnel

Sagentia's business relies on recruiting and retaining highly qualified technical experts on whom the business depends to deliver research and development services, often requiring leading edge science and technology. Failure to recruit and retain key staff could threaten the business's ability to deliver projects to its clients or to win new work.

The Group seeks to mitigate this risk by encouraging staff retention by offering competitive remuneration packages for personnel including base salary, annual bonus, pension and health benefits and share option schemes; offering a diversity of technically challenging work for a diversity of customers in a number of market sectors, across a variety of technologies; and providing career development paths and training support.

Reputational risk

Failure to deliver project deliverables to an agreed budget and timetable on a particular project may result in reputational damage to Sagentia that may adversely affect future sales.

The Group seeks to mitigate this risk by having in place effective Quality Assurance procedures; senior management review meetings being held with clients on a regular basis; formal questionnaires being sent to clients at the close of projects to ascertain their views and to inform improvements and actions that the Group may take; and various accreditations including ISO 9001 and ISO 13485.

Economic conditions or other factors affecting the financial circumstances of customers of the Group

The profitability of the Group could be adversely affected by the general economic conditions in the United Kingdom, United States and/or other key markets by virtue of the financial failure of customers or potential customers of the Group. It may also involve customers defaulting on the payment of invoices issued by the Group or delaying payment of invoices which may have a significant impact on the income and the business of the Group.

The Group seeks to mitigate this risk by actively managing customer credit limits and monitoring invoicing and work-in-progress on a regular basis and, if appropriate, requiring the payment in advance of all or part of the estimated costs.

Project over-run or failure to meet technical milestones

Projects may over-run and/or may fail to meet technical milestones because the nature of the work which Sagentia undertakes is technically challenging. Project over-runs can lead to loss of margin on projects and overall profitability for the consultancy business. Poor performance may also result in damage to Sagentia's reputation.

The Group seeks to mitigate this risk by contracting the majority of projects on a time and materials basis; operating a formal bid review process including peer review of estimates submitted to customers; incorporating risk premiums into agreements if appropriate; conducting regular project reviews to assess whether the revenue recognised on work in progress is a fair representation of actual costs incurred and estimated costs to completion; conducting regular, formal project board review meetings for large projects; and management meetings with clients to review progress on projects.

Currency exchange rates

A significant proportion of the Group's revenues are invoiced in currencies other than Sterling, including but not limited to the US Dollar and Euro while the vast majority of the Group's cost base is incurred in Pounds Sterling. As a result, variations in currency exchange rates may have a material impact on Group revenue and profit performance.

To mitigate this risk, the Group transfers all foreign currency holdings into Pounds Sterling on a regular basis. The Group regularly considers the merits of currency hedging but to date has determined that it would not be appropriate.

In addition to the principal risks and uncertainties above, the Group faces other risks that include but are not limited to:

- increased competition;
- failure to retain, or loss of, customer contracts;
- customer concentration;
- technology leadership;
- product liability claims or other warranty and indemnity claims in respect of contractual obligations;
- infringement of third party intellectual property rights;
- failure of licensees to successfully exploit licensed technology;
- counterparty risk;
- United Kingdom and other taxation;
- risk to property;
- changes in legislation relating to trading.

Corporate Responsibility

Sagentia takes its responsibilities as a corporate citizen seriously in the territories in which the Group operates. The Board's primary goal is to create shareholder value but in a responsible way which serves all stakeholders. Furthermore, Sagentia seeks to continually enhance and extend its science and technology contribution to society through the work the Group undertakes with its clients and in areas where the Group decides to invest and explore directly.

Governance

The Board considers sound governance as a critical component of Sagentia's success. Sagentia has an effective and engaged Board, with a strong non-executive presence from diverse backgrounds, and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration Committee of the Board seeks to ensure that Sagentia's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on our corporate governance can be found on page 14.

Employees and their development

Sagentia is dependent upon the qualities and skills of its employees and the commitment of its people play a major role in the Group's business success. The Group invests in training and developing its staff through internally arranged knowledge sharing events and through external courses, including technical, business and managerial training.

Employees' performance is aligned to the Group's goals through an annual performance review process and via Sagentia's incentive programmes. Sagentia provides employees with information about its activities through regular briefings and other media. Sagentia operates a company-wide bonus/profit share scheme and share option schemes, at the discretion of the Remuneration Committee. Executives and managers in Sagentia are invited to participate in these schemes on the basis of recommendations made by the Executive Management to the Remuneration Committee.

Sagentia also recognises the particular challenges for young graduates entering the workforce. Since 2012 the Group has operated a programme to assist new graduates employed by Sagentia with payments towards their student loans, such that they receive extra support for the first three years of their employment.

Diversity and inclusion

Sagentia's employment policies are non-discriminatory on the grounds of age, gender, nationality, ethnic or racial origin, non-job-related-disability, sexual orientation or marital status. Sagentia gives due consideration to all applications and provides training and the opportunity for career development wherever possible. The Board does not support discrimination of any form, positive or negative, and all appointments are based solely on merit.

The gender ratio for permanent employees in the Group at the end of the year was as follows:

	31 December 2014				31 December 2013			
	No	Male %	No	Female %	No	Male %	No	Female %
Plc Board of Directors (incl Company Secretary)	4	67%	2	33%	5	83%	1	17%
Operating Board	2	67%	1	33%	3	75%	1	25%
Senior management & staff (>£60,000 per annum)	48	89%	6	11%	48	86%	8	14%
Other staff	87	64%	49	36%	106	70%	46	30%
Total staff	141	71%	58	29%	162	74%	56	26%

Notes:

- staff are only allocated to one category. For example, where an employee is a member of the plc Board, that person is not then included within the other classifications;
- subsidiary directors have not been separately identified in the above table. With the exception of one male subsidiary director, all subsidiary directors are either plc Board Directors or sit on the Operating Board.

STEM Bursary Scheme

Sagentia has provided opportunities to paid interns since 2000 with many going on to work for the Group after graduating. The Sagentia Bursary Scheme was launched in 2013, and offers up to 10 paid bursaries of £2,500 each to support science and engineering students during the academic year. Successful applicants are also given preferential consideration for paid sandwich-year and/or summer placements with Sagentia and future employment opportunities.

Health and safety

Sagentia endeavours to ensure that the working environment is safe and conducive to healthy, safe and content employees. The Group has a Health and Safety at Work policy which is reviewed regularly by the Board. The Board Executive Director responsible for health and safety is the Finance Director.

The Group is committed to the health and safety of its employees, clients, sub-contractors and others who may be affected by the Group's work activities. The Group evaluates the risks to health and safety in the business and manages this through a Health and Safety Management System.

The Group provides necessary information, instruction, training and supervision to ensure that employees are able to discharge their duties effectively. The Health and Safety Management System used by the Group ensures compliance with applicable legal and regulatory requirements and internal standards and seeks, by continuous improvement, to develop health and safety performance.

Research and development

Sagentia provides outsourced research and development services and therefore has an inherent and continuing commitment to high levels of research and development, primarily on behalf of its clients but also on its own behalf.

Environment

Sagentia's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. The Group's operations are conducted such that compliance is maintained with legal requirements relating to the environment in areas where the Group conducts its business. During the period covered by this report Sagentia has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

Approved by the Board of Directors on 3 March 2015 and signed on its behalf by:

Martyn Ratcliffe
Chairman

Rebecca Hemsted
Finance Director

Report of the Directors

The Directors present their annual report on the business of Sagentia Group plc together with consolidated financial statements and independent auditor's report for the year ended 31 December 2014.

Accompanying the Report of the Directors is the Strategic Report on pages 4 to 10.

Review of the business and its future development

A review of the business and its future development is set out in the Strategic Report, incorporating the Chairman's Statement and Finance Director's Report.

Cautionary statement

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of these reports and should be treated with caution due to inherent uncertainties associated with such statements.

Results and dividends

The results of the Group are set out in detail on page 21.

The Directors propose to pay a dividend of 4.0 pence per share for the year ended 31 December 2014 (2013: 1.1 pence).

Capital structure

Details of the Company's issued share capital, together with details of the movements therein are set out in Note 20 to the Financial Statements. The Company has one class of ordinary shares which carry no right to fixed income.

Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Strategic Report and Note 3 to the Financial Statements.

Directors

The Directors are listed on page 12. Biographies of the Directors are also given on page 13.

Martyn Ratcliffe will retire by rotation and offer himself for re-election at the next Annual General Meeting.

Directors' interests in shares and contracts

Directors' interests in the shares of Sagentia Group plc at 31 December 2014 and 31 December 2013, and any changes subsequent to 31 December 2014, are disclosed in Note 8. None of the Directors had an interest in any contract of significance to which Sagentia was a party during the financial year.

Annual General Meeting

The Annual General Meeting ('AGM') will be held at 9am on 21 May 2015 at Harston Mill, Harston, Cambridge, CB22 7GG. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

Purchase of own shares

At the AGM on 20 May 2014, shareholders approved a resolution for the Company to buyback up to 3,880,162 of its own shares. This resolution remains valid until the later of the conclusion of the next Annual General Meeting in 2015 or 30 June 2015. As at the date of this report, the Company has purchased 1,590,000 of its own shares using this authority.

Employees

The average number of persons, including Directors, employed by the Group and their remuneration is set out in Note 7 to the Financial Statements.

Donations

The company operates a scheme whereby it will, on a discretionary basis, match charitable donations raised by employees up to a specified limit. Charitable contributions made in 2014 were £1,000 (2013: £6,000). No political donations were made during the period (2013: £Nil).

Post balance sheet events

Post balance sheet events are disclosed in Note 26 in the Notes to the Financial Statements.

Auditors

The auditors are willing to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Report of the Directors continued

Substantial shareholdings

As at the date of this report, Sagentia had been notified of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% held
Martyn Ratcliffe	12,512,906	33.51%
Ruffer LLP	4,286,435	11.48%
Hargreave Hale	3,708,320	9.93%
Miton Asset Management	1,977,727	5.30%
Charles Stanley & Co	1,694,718	4.54%
Allianz Global Investors Europe	1,400,000	3.75%

Directors

The Directors of the Company who served during the year were:

Director	Role at	Date of (re-)	Retired	Board Committee		
	31 December 2014	appointment		A	N	R
Martyn Ratcliffe	Chairman	16/04/12			N	
Rebecca Hemsted	Finance Director	20/05/14				
David Courtley*	Non-Executive	15/05/13		A	N	R
Michael Lacey-Solymar*	Non-Executive	15/05/13		A	N	R
Keith Glover*	Non-Executive	20/05/14		A	N	R
Neil Elton	-	16/05/11	14/02/14			

Board Committee abbreviations are as follows: A = Audit Committee; R = Remuneration Committee; N = Nomination Committee
+ Independent Director

Report of the Directors continued

Directors' biographies

Below are the biographies of the Directors and other Key Management Personnel of Sagentia Group:

Martyn Ratcliffe* – Chairman

Martyn Ratcliffe was appointed Chairman on 15 April 2010 following his investment in Sagentia. He has been Chairman of Microgen plc since 1998. He was previously Senior Vice President of Dell Computer Corporation, responsible for EMEA. He has a degree in Physics from the University of Bath and an MBA from City University, London.

Rebecca Hemsted – Finance Director

Rebecca Hemsted was appointed to the Board on 27 January 2014. Ms Hemsted is a Chartered Accountant and has a degree in Physics from the University of Oxford. She qualified at Deloitte where she spent six years including three years in New Zealand, and joined Sagentia from RM plc where she was Business Finance Partner for the Managed Services Business.

David Courtley – Senior Independent Director

David Courtley was appointed a Non-Executive Director on 15 April 2010. He is also Chief Executive of Mozaic Services and Non-Executive Director of Parity plc. He was previously Chief Executive of Phoenix IT Group plc, Chief Executive of Fujitsu Services Europe and MD of EDS UK. He has a degree in Mathematics from Imperial College, London.

Michael Lacey-Solymar – Non-Executive Director

Michael was appointed a Non-Executive Director on 11 October 2012. Michael has over 25 years corporate finance experience, having spent 18 years at UBS and seven years at Investec. He is currently a partner at Opus Corporate Finance LLP and a Non-Executive Director of DrugDev Inc. He has a degree in Modern Languages from the University of Oxford.

Professor Keith Glover – Non-Executive Director

Keith Glover was appointed a Non-Executive Director on 1 October 2011. He is a Fellow of the Royal Society, a Fellow of the Institute of Electrical and Electronic Engineers, a Fellow of the Royal Academy of Engineering, and was elected to a Professorship of Engineering at Cambridge University in 1989, served as Head of the Department of Engineering from 2002 to 2009 and became an Emeritus Professor on 1 January 2014. He has a BSc in Electrical Engineering from Imperial College, London and a PhD from Massachusetts Institute of Technology.

* Retires by rotation at the next AGM

Sarah Cole – Company Secretary

Sarah Cole joined the Company on 10 January 2011 and was appointed Company Secretary on 22 March 2013. Ms Cole has a degree in Jurisprudence from the University of Oxford and qualified as a Solicitor in 2003.

Michael Withers – Managing Director

Mick Withers joined Sagentia on 10 July 2006 and was appointed Managing Director in October 2012. He has a degree in Mechanical Engineering from the University of Nottingham and has over 25 years' experience in technical consulting and scientific product development in the UK and international markets.

Tamara Kahn – Corporate Development Director

Tamara Kahn joined Sagentia on 7 September 2010 and is responsible for corporate development and strategic marketing for the Group. She has a degree in Political Science & International Economics from UCLA, USA and an MBA from INSEAD, France.

Dan Edwards – Managing Director

Dan Edwards joined Sagentia in August 2004 and has held a number of roles within the Group including four years in the USA before being appointed Managing Director in October 2012. He has an Engineering degree from the University of Cambridge and an MBA from Harvard Business School.

Report of the Directors continued

Corporate Governance Report

The Company is registered in England and Wales and listed on the Alternative Investment Market of the London Stock Exchange ('AIM').

Statement about applying the principles of the Code

Sagentia does not comply with the UK Corporate Governance Code but has reported on the Company's Corporate Governance arrangements drawing upon best practice available, including those aspects of the UK Corporate Governance Code which the Board considers to be relevant to the Company.

Board of Directors

Biographical details of the Directors are included on page 13.

At 31 December 2014, the Board comprised a Chairman, Finance Director and three Independent Non-Executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-Executive Directors hold meetings without the Chairman and Finance Director present.

The Chairman is primarily responsible for the working of the Board of Sagentia Group plc and Group corporate strategy, the running of the business and implementation of the Board strategy and policy. The Chairman is assisted in the managing of the business on a day-to-day basis by the Managing Directors of the operating businesses, the Finance Director and the Executive team of Sagentia.

High-level strategic decisions are discussed and taken by the full Board. Investment decisions (above a de minimis level) are taken by the full Board. Operational decisions are taken by the Managing Directors within the framework approved in the annual financial plan and within a framework of Board-approved authorisation levels.

The Board met 13 times during 2014 (2013: 17). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically meets ten times a year to consider a formal schedule of matters including the operating performance of the business and to review Sagentia's financial plan and business model.

Non-Executive Directors are appointed for a three year term after which their appointment may be extended by mutual agreement after due consideration by the Nomination Committee of the Board. In accordance with the Company's Articles of Association, the longest serving Director must retire at each Annual General Meeting and each Director must retire in any three year period, so that over a three year period all Directors will have retired from the Board and been subject to shareholder re-election.

All Directors have access to the advice and services of the Company Secretary and other independent professional advisers as required. Non-Executive Directors have access to key members of staff and are entitled to attend management meetings in order to familiarise themselves with all aspects of Sagentia.

It is the responsibility of the Chairman and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

Relations with shareholders

The Directors seek to build on a mutual understanding of objectives between Sagentia and its major shareholders by meeting to discuss long term issues and receive feedback, communicating regularly throughout the year and issuing trading updates as appropriate. The Board also seeks to use the Annual General Meeting to communicate with its shareholders.

Balanced and understandable assessment of position and prospects

The Board has shown its commitment to presenting balanced and understandable assessments of Sagentia's position and prospects by providing comprehensive disclosures within the financial report in relation to its activities.

The Board has applied the principles of good governance relating to Directors' remuneration as described below. The Board has determined that there are no specific issues which need to be brought to the attention of shareholders.

Remuneration strategy

Sagentia operates in a competitive market. If Sagentia is to compete successfully, it is essential that it attracts, develops and retains high quality staff. Remuneration policy has an important part to play in achieving this objective. Sagentia aims to offer its staff a remuneration package which is both competitive in the relevant employment market and which reflects individual performance and contribution. For 2014, the remuneration package comprised salary, pension contributions, healthcare and life assurance benefits, a company bonus scheme and, where appropriate, share options. With effect from 2013, new graduates also receive a contribution towards repayment of student loans during their first three years of employment.

Report of the Directors continued

Board Committees

The Board maintains three standing committees, being the Audit, Remuneration and Nomination Committees. The minutes of all sub-committees are circulated for review and consideration by all relevant Directors, supplemented when appropriate by oral reports from the Committee Chairmen at Board meetings.

Audit Committee

The Audit Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar, David Courtley and Keith Glover. The Audit Committee met twice during 2014 (2013: 3). Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by David Courtley and also comprises Keith Glover and Michael Lacey-Solymar. The Remuneration Committee met 4 times during 2014 (2013: 7). It may take advice from time to time from external advisers, but did not do so in 2014. Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and also comprises David Courtley, Michael Lacey-Solymar and Keith Glover. The Nomination Committee met once during 2014 (2013: 1). It may take advice from time to time from external advisers, but did not do so in 2014. The Committee meets when necessary. The Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Board seeks input from all Directors regarding nominations for Board positions. All Board appointments have to be ratified at a General Meeting of the Company.

Meetings of the Board and sub-committees during 2014 were as follows:

	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in 2014	13	2	4	1
Martyn Ratcliffe	13/13	2/2*	4/4*	1/1
Rebecca Hemsted	12/13	2/2*	3/4*	1/1
David Courtley	13/13	2/2	4/4	1/1
Professor Keith Glover	13/13	2/2	4/4	1/1
Michael Lacey-Solymar	13/13	2/2	4/4	1/1
Neil Elton (retired 14/02/14)	1/13	N/A	N/A	N/A

* Attendance by invitation

Report of the Remuneration Committee

Remuneration Committee

The Committee, which is chaired by David Courtley, also comprises Michael Lacey-Solymar and Keith Glover.

The Remuneration Committee monitors the Remuneration policies of Sagentia to ensure that they are consistent with Sagentia's business objectives. Its terms of reference include the recommendation and execution of policy on Director and executive management remuneration and for reporting decisions made to the Board. The Committee both determines the individual remuneration package of the Chairman and Finance Director and reviews remuneration levels for all employees of Sagentia. In accordance with the provisions of the UK Corporate Governance Code, this responsibility includes pension rights and any other compensation payments including bonus payments and share option awards.

The Remuneration Committee recognises that incentivisation of staff is a key issue for Sagentia, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to Sagentia results. During the year the Remuneration Committee approved grants of share options and confirmed a profit related bonus scheme for the Company for 2014.

The aim of the Board and the Remuneration Committee is to maintain a policy that:

- establishes a remuneration structure that will attract, retain and motivate executives, senior managers and other staff of appropriate calibre;
- rewards executives and senior managers according to both individual and Group performance;
- establishes an appropriate balance between fixed and variable elements of total remuneration, with the performance-related element forming a potentially significant proportion of the total remuneration package;
- aligns the interests of executives and senior managers with those of shareholders through the use of performance-related rewards and share options in Sagentia.

From time to time the Committee may obtain market data and information as appropriate when making its comparisons and decisions and is sensitive to the wider perspective, including pay and employment conditions elsewhere in Sagentia, especially when undertaking salary/remuneration reviews.

The remuneration package comprises the following elements:

- basic salary – normally reviewed annually and set to reflect market conditions, personal performance and benchmarks in comparable companies;
- annual performance-related bonus – executives, managers and employees receive annual bonuses related to company performance. The Chairman does not participate in the Group performance-related bonus scheme;

- benefits – benefits include medical insurance, life assurance, pension contributions and student loan contributions. The Chairman does not receive these benefits;
- share options – share option grants are reviewed regularly.

Full details of each Director's remuneration package and their interests in shares and share options can be found in Note 8 to the Financial Statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

Service contracts

The Chairman and Finance Director have employment contracts that contain notice periods of six months. Non-Executive Directors' service contracts may be terminated on three months' notice. There are no additional financial provisions for termination.

Share option plans

The Company adopted an approved and unapproved Share Option Scheme in 2008, the terms of which were reviewed and amended in 2010 and 2013 and adopted by shareholders. Further in 2013, the company adopted an unapproved Performance Share Plan ('PSP'), the terms of which were amended in 2014 and adopted by shareholders. Options granted under the former schemes were issued at market price whilst options granted under the PSP scheme are issued at the nominal share price. The Remuneration Committee approves any options granted thereunder. Directors are entitled to participate in Sagentia's share option schemes. Independent Non-Executive Directors do not participate in Sagentia's share option schemes. It is the policy of Sagentia to grant share options to Executive Directors and key employees as a means of encouraging ownership and providing incentives for performance. To date share options granted to the Chairman have been specifically approved by shareholders.

The market price of the shares at 31 December 2014 was 118.5 pence (31 December 2013: 142.0 pence). The highest and lowest price during the year was 161.5 pence and 111.0 pence respectively.

Report of the Audit Committee

Audit Committee

The Audit Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar, David Courtley and Keith Glover.

The Audit Committee has written terms of reference and provides a mechanism through which the Board can maintain the integrity of the financial statements of Sagentia and any formal announcements relating to Sagentia's financial performance; to review Sagentia's internal financial controls and Sagentia's internal control and risk management systems; and to make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness and the independence and objectivity of the auditors. A recommendation regarding the auditors is put to shareholders for their approval in general meetings.

Provision is made by the Audit Committee to meet the auditors at least twice a year.

The Board and Audit Committee have approved an extension to the engagement term of the Senior Statutory Auditor responsible for the audit opinion in relation to Sagentia Group plc. The term is extended from five to six years. The Audit Committee believes that given the change in Finance Director in 2014, continuity is important to the quality of the Group's audit and is satisfied that the safeguards proposed by the auditor mean that the extension will not threaten the objectivity and independence of the audit. Accordingly, the rotation of the Senior Statutory Auditor will apply after the year ended 31 December 2014.

Internal controls

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investments and Sagentia's assets, the Directors recognise that they have overall responsibility for ensuring that Sagentia maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of that system. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material mis-statement or loss, and that the system is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

Sagentia has established procedures necessary to implement the guidance on internal control issued by the FRC Guidance on Audit Committees 2010. This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers.

The key features of the internal control system are described below:

Control environment – Sagentia is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There are also policies in place for the reporting and resolution of suspected fraudulent activities. Sagentia has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

Risk identification – management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements.

Information systems – Group businesses participate in periodic operational/strategic reviews and annual plans. The Board actively monitors performance against plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Main control procedures – Sagentia has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

Monitoring and corrective action – there are clear and consistent procedures in place for monitoring the system of internal financial controls.

This process, which operates in accordance with the FRC guidance, was maintained throughout the financial year, and has remained in place up to the date of the approval of these financial statements. The Board, via the Audit Committee, has reviewed the systems and processes in place in meetings with the Finance Director and Sagentia's auditors during 2014. No internal audit function is operated outside of the systems and processes in place, as the Board considers that Sagentia is too small for a separate function. The Board considers the internal control system to be adequate for Sagentia.

The auditors have provided services in relation to the annual audit of the Group, advice and compliance work in relation to taxation and other advisory work during the year.

Report of the Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and also comprises David Courtley, Michael Lacey-Solymer and Keith Glover.

The Nomination Committee reviews the composition of the Board and its effectiveness on an annual basis in order to ensure that the Board comprises the requisite skills (corporate, financial, operational and technical) and experience and reviews how the Board works together as a unit. The Nomination Committee does not believe that it is appropriate to set any specific targets with regards to diversity, including gender, although the Committee believes that the search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

Directors' Responsibilities

The Directors are responsible for preparing the Report of the Directors, the Strategic Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the Group financial statements, and have elected to prepare the 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 and 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 estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors confirm that:

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

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

Approval

The Report of the Directors was approved by the Board on 3 March 2015 and signed on its behalf:

By order of the Board

Sarah Cole Company Secretary	Harston Mill, Harston Cambridge, CB22 7GG
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Independent Auditor's Report to the Members of Sagentia Group plc

We have audited the financial statements of Sagentia Group plc for the year ended 31 December 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Shareholders' Equity, the Consolidated and Company Balance Sheet, the Consolidated and Company Statements of Cash Flow and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- 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 for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS 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.

Opinion on the matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Alison Seekings

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
3 March 2015

Financial Statements

and Notes to the Financial Statements

Consolidated Income Statement

For the year ended 31 December 2014

	Note	Group	
		2014 £000	2013 £000
Revenue	4	28,329	30,596
Operating expenses	5	(22,926)	(24,852)
Adjusted operating profit		5,403	5,744
Amortisation and impairment of intangible assets	13	(229)	(109)
Share based payment charge	7, 20	(431)	(283)
Operating profit	4	4,743	5,352
Finance costs	6	(570)	(467)
Finance income	6	28	54
Profit before income tax		4,201	4,939
Income tax	9	(765)	(306)
Profit for the year		3,436	4,633
Profit for the year attributable to equity holders of the parent		3,436	4,633
Earnings per share			
Earnings per share from continuing operations (basic)	11	8.9p	12.4p
Earnings per share from continuing operations (diluted)	11	8.1p	11.2p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Group	
	2014 £000	2013 £000
Profit for the year	3,436	4,633
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Fair value gain/(loss) on interest rate swap, net of tax	41	(41)
Exchange differences on translating foreign operations	43	(27)
Other comprehensive income/(expense) for the year	84	(68)
Total comprehensive income for the year	3,520	4,565
Total comprehensive income for the year attributable to owners of the parent	3,520	4,565

Consolidated Statement of Changes in Shareholders' Equity

At 31 December 2014

Group	Issued capital	Share premium	Treasury stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total shareholders' funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2013	420	7,581	(4,451)	10,343	222	1,193	9,943	25,251
Issue of shares out of treasury stock	-	-	749	-	-	-	(373)	376
Acquisition of OTM Consulting	-	194	765	-	-	-	-	959
Dividends paid	-	-	-	-	-	-	(366)	(366)
Share based payment charge	-	-	-	-	-	283	-	283
Transactions with owners	-	194	1,514	-	-	283	(739)	1,252
Profit for the year	-	-	-	-	-	-	4,633	4,633
Other comprehensive income:								
Fair value gain/(loss) on interest rate swap	-	-	-	-	-	-	(41)	(41)
Exchange differences on translating foreign operations	-	-	-	-	(27)	-	-	(27)
Total comprehensive income for the year	-	-	-	-	(27)	-	4,592	4,565
Balance at 31 December 2013	420	7,775	(2,937)	10,343	195	1,476	13,796	31,068
Balance at 1 January 2014	420	7,775	(2,937)	10,343	195	1,476	13,796	31,068
Purchase of own shares	-	-	(1,801)	-	-	-	-	(1,801)
Issue of shares out of share capital	1	31	-	-	-	-	-	32
Issue of shares out of treasury stock	-	-	300	-	-	-	(138)	162
Dividends paid	-	-	-	-	-	-	(428)	(428)
Share based payment charge	-	-	-	-	-	431	-	431
Deferred tax on share based payment transactions	-	-	-	-	-	-	465	465
Transactions with owners	1	31	(1,501)	-	-	431	(101)	(1,139)
Profit for the year	-	-	-	-	-	-	3,436	3,436
Other comprehensive income:								
Fair value gain/(loss) on interest rate swap	-	-	-	-	-	-	41	41
Exchange differences on translating foreign operations	-	-	-	-	43	-	-	43
Total comprehensive income for the year	-	-	-	-	43	-	3,477	3,520
Balance at 31 December 2014	421	7,806	(4,438)	10,343	238	1,907	17,172	33,449

Company Statement of Changes in Shareholders' Equity

At 31 December 2014

Company	Issued capital	Share premium	Treasury stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total shareholders' funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2013	420	7,581	(4,451)	10,343	-	288	12,180	26,361
Issue of shares out of treasury stock	-	-	749	-	-	-	(373)	376
Acquisition of OTM Consulting	-	194	765	-	-	-	-	959
Dividends paid	-	-	-	-	-	-	(366)	(366)
Share based payment charge	-	-	-	-	-	28	-	28
Transactions with owners	-	194	1,514	-	-	28	(739)	997
Profit and total comprehensive income for the year	-	-	-	-	-	-	4,456	4,456
Balance at 31 December 2013	420	7,775	(2,937)	10,343	-	316	15,897	31,814
Balance at 1 January 2014	420	7,775	(2,937)	10,343	-	316	15,897	31,814
Purchase of own shares	-	-	(1,801)	-	-	-	-	(1,801)
Issue of shares out of share capital	1	31	-	-	-	-	-	32
Issue of shares out of treasury stock	-	-	300	-	-	-	(138)	162
Dividends paid	-	-	-	-	-	-	(428)	(428)
Share based payment charge	-	-	-	-	-	26	-	26
Deferred tax on share based payment transactions	-	-	-	-	-	-	370	370
Transactions with owners	1	31	(1,501)	-	-	26	(196)	(1,639)
Profit and total comprehensive income for the year	-	-	-	-	-	-	6,426	6,426
Balance at 31 December 2014	421	7,806	(4,438)	10,343	-	342	22,127	36,601

Consolidated and Company Balance Sheet

At 31 December 2014

		Company		Group	
	Note	2014 £000	2013 £000	2014 £000	2013 £000
ASSETS					
Non-current assets					
Acquisition related intangible assets	13	-	-	1,867	2,058
Goodwill	13	-	-	3,458	3,577
Property, plant and equipment	14	-	-	14,458	14,482
Investments	15	16,818	16,818	-	-
Deferred income tax assets	10	423	-	1,868	2,634
		17,241	16,818	21,651	22,751
Current assets					
Trade and other receivables	16	14,256	9,939	5,474	5,272
Cash and cash equivalents	17	5,231	5,281	23,802	22,428
		19,487	15,220	29,276	27,700
Total assets		36,728	32,038	50,927	50,451
LIABILITIES					
Current liabilities					
Trade and other payables	18	122	221	6,783	7,105
Current income tax liabilities	18	5	3	22	155
Borrowings	18	-	-	1,009	1,020
		127	224	7,814	8,280
Non-current liabilities					
Borrowings	19	-	-	7,778	8,778
Other payables	19	-	-	-	112
Derivative financial liabilities	19	-	-	203	41
Deferred income tax liabilities	10, 19	-	-	1,683	2,172
		-	-	9,664	11,103
Total liabilities		127	224	17,478	19,383
Net assets					
		36,601	31,814	33,449	31,068
Shareholders' equity					
Share capital	20	421	420	421	420
Share premium		7,806	7,775	7,806	7,775
Treasury stock		(4,438)	(2,937)	(4,438)	(2,937)
Merger reserve		10,343	10,343	10,343	10,343
Translation reserve		-	-	238	195
Share based payment reserve		342	316	1,907	1,476
Retained earnings		22,127	15,897	17,172	13,796
Total equity		36,601	31,814	33,449	31,068

The financial statements were approved by the Board of Directors and signed on its behalf by

Rebecca Hemsted Finance Director
Martyn Ratcliffe Chairman
 On 3 March 2015

The accompanying Notes are an integral part of the Consolidated and Company Balance Sheet.
 The Company's registered number is **06536543**.

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2014

	Note	Company		Group	
		2014 £000	2013 £000	2014 £000	2013 £000
Profit before income tax		6,378	4,457	4,201	4,939
Depreciation and amortisation charges		-	-	629	441
Loss on disposal of property, plant and equipment		-	-	7	-
Change in fair value on interest rate swap		-	-	203	-
Share based payment charge		26	28	431	283
Impairment of goodwill and intangible assets		-	-	126	-
Write-off of fair value of contingent consideration		-	-	(81)	-
(Increase)/decrease in receivables		(4,317)	(4,169)	(202)	(1,321)
Increase/(decrease) in payables		(99)	33	(291)	(120)
Cash generated from operations		1,988	349	5,023	4,222
UK corporation tax paid		(3)	(1)	(155)	(339)
Foreign corporation tax received/(paid)		-	-	-	46
Cash flows from operating activities		1,985	348	4,867	3,929
Purchase of property, plant and equipment		-	-	(428)	(419)
Purchase of subsidiary undertaking, net of cash received		-	(5,300)	-	(3,770)
Cash flows used in investing activities		-	(5,300)	(428)	(4,189)
Issue of ordinary share capital		32	-	32	-
Issue of shares out of treasury		162	376	162	376
Repurchase of own shares		(1,801)	-	(1,801)	-
Dividends paid		(428)	(366)	(428)	(366)
Proceeds from bank loans		-	-	-	10,000
Repayment of bank loans		-	-	(1,000)	(6,450)
Proceeds from other loan		-	-	-	10
Repayment of other loan		-	-	(11)	(28)
Cash flows from/(used in) financing activities		(2,035)	10	(3,046)	3,542
Increase/(decrease) in cash and cash equivalents in the year		(50)	(4,942)	1,394	3,282
Cash and cash equivalents at the beginning of the year		5,281	10,223	22,428	19,179
Exchange gains/(losses) on cash		-	-	(20)	(33)
Cash and cash equivalents at the end of the year	17	5,231	5,281	23,802	22,428

Notes to the Financial Statements

For the year ended 31 December 2014

1 General information

Sagentia Group plc (the 'Company') and its subsidiaries (together 'Sagentia' or 'Group') is an international science and technology consulting group providing outsourced R&D consultancy and technology advisory services. The Company is the ultimate parent company in which results of all Sagentia companies are consolidated.

Sagentia develops new and novel technologies in the Medical (Diagnostics, Patient Care and Surgical) and Commercial (Industrial, Consumer and Oil & Gas) industries and provides technology advisory services. Sagentia's facilities include offices and laboratories located in Europe in Harston near Cambridge, London and Guildford, in the US in Boston, Massachusetts and Houston, Texas, and in Dubai.

The Group and Company accounts of Sagentia Group plc were prepared under IFRS as adopted by the European Union, and have been audited by Grant Thornton UK LLP. Accounts are available from the Company's registered office; Harston Mill, Harston, Cambridge, CB22 7GG.

The Company is incorporated and domiciled in England and Wales under the Companies Act 2006 and has its primary listing on the AIM Market of the London Stock Exchange (SAG.L). The value of Sagentia Group plc shares, as quoted on the London Stock Exchange plc at 31 December 2014, was 118.5 pence per share (31 December 2013: 142.0 pence).

These consolidated financial statements have been approved for issue by the Board of Directors on 3 March 2015.

2 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 of the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Sagentia have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments at fair value. The financial statements are in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Of the new standards and interpretations effective for the year ended 31 December 2014, there was no impact on the presentation of the financial statements of Sagentia other

than in disclosure. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated financial statements.

No income statement is presented for the Company as provided by Section 408 of the Companies Act 2006. The Company's profit for the financial period after tax, determined in accordance with the Act, was £6,426,000 (2013: £4,456,000).

The Standards and Interpretations in issue but not effective for accounting periods commencing on 1 January 2014 that may impact on Sagentia going forward are listed below. Sagentia has not adopted these early.

Number	Title	Effective
Amendments to IFRS 2, 3, 8, 13 and IAS 16, 24 and 38	Annual improvements to IFRS 2010-2012 Cycle	1-Jul-14
Amendments to IFRS 1, 3, 13 and IAS 40	Annual improvements to IFRS 2011-2013 Cycle	1-Jul-14
Amendments to IFRS 5, 7 and IAS 19 and 34	Annual improvements to IFRS 2012-2014 Cycle	1-Jan-16
IFRS 9	Financial Instruments	1-Jan-18
IFRS 15	Revenue from Contracts with Customers	1-Jan-17

All standards and interpretations are not expected to have any significant impact on Sagentia's financial statements in their periods of initial application.

Notes to the Financial Statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The preparation 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 Sagentia's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 25.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. In addition, Note 3 to the Financial Statements and the Report of the Directors include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.2 Basis of consolidation

The basis of consolidation is set out below:

Subsidiaries – subsidiaries are entities over which Sagentia has the power to govern the financial and operating policies 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 Sagentia controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Sagentia. They are de-consolidated from the date that control ceases. Intercompany balances and transactions between Group companies are eliminated on consolidation.

Investment in subsidiaries – in the Company accounts, investments in subsidiaries are stated at cost less any provision for impairment where appropriate.

Business combinations – the acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed in exchange for control. The acquired company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date. Acquisition expenses are expensed as incurred.

2.3 Segment reporting

Under IFRS 8, the accounting policy for identifying segments is based on the internal management reporting information that is regularly reviewed by the chief operating decision makers (CODM).

There are two segments identified; Core Business and Other. Core Business activities includes all 'fees for services' operations including recharged materials and product and licence income generated directly from these activities. 'Other' activities include rental income from Harston Mill and external IT services. The constituent sectors (Medical and Commercial) are reviewed by the CODM at the revenue/sales level only.

2.4 Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill – represents the amount by which the fair value of the cost of a business combination exceeds the fair value of net assets acquired. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in profit or loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Acquisition related intangible assets – net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition related intangible assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed. The estimated useful economic life for customer contracts and relationships is 11 years.

2.5 Research and development expenditure

Research and development expenditure is written off as incurred.

Notes to the Financial Statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies (continued)

2.6 Property, plant and equipment

Land and buildings as shown in the Notes to the accounts comprise offices and laboratories at Harston Mill, Harston, Cambridge, UK. Land and buildings are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to Sagentia and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on buildings is calculated using the reducing balance method to calculate their cost less their residual values over their economic life as follows:

Buildings	25 years
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Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Furniture and fittings	3-5 years
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Equipment	3 years
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Acquired computer software licences are included within Equipment. These are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount, when an indicator of impairment is identified.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.7 Trade and other receivables

Trade and other receivables are recognised initially at fair value and 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 Sagentia will not be able to collect all the amounts due according to the original terms of 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.

2.8 Trade and other payables

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

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and on demand deposits, together with short term, liquid investments that are readily convertible to a known amount of cash and that are subject to a minimal risk of changes in value.

2.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Sagentia has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.11 Derivative financial instruments

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

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Notes to the Financial Statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies (continued)

2.11 Derivative financial instruments (continued)

In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

2.12 Share capital

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

Where the Company purchases the Company's equity share capital into Treasury (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity attributable to the Company's equity holders. Where such shares are subsequently cancelled, the movement is recognised directly in equity with no gain or loss recognised in profit or loss.

2.13 Revenue recognition

Consulting revenue represents the fair value of the consideration received or receivable for consulting services on each client assignment provided during the year based on the time worked at agreed fee rates, including expenses and disbursements but excluding value added tax and other similar sales taxes.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs. An expected loss on contract is recognised immediately in the income statement.

Product and licence income is recognised in the related period in line with the agreement or contract.

Property income from leases over property held is recognised in the related period on a straight-line basis over the lease term.

IT support fees are recognised in the related period in line with the contract.

Investment income is recognised in the income statement in the period in which it arises.

2.14 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.15 Foreign currency

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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.

In respect of translation differences on non-monetary items, items held at cost are translated at the exchange rate at the date of transaction.

(c) Group companies

The results and financial position of all Sagentia entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) all resulting exchange differences are recognised as a separate component of equity; and
- (iv) on disposal of a foreign subsidiary the accumulated translation differences recognised in equity are reclassified to profit and loss and recognised as part of the gain or loss on disposal.

Notes to the Financial Statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies (continued)

2.16 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies based on a percentage of salary earned, currently ranging between 0% and 8%. These are defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administered pension insurance plans. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Sagentia Inc. and OTM Consulting Inc. provide 401(k) benefits to employees. Sagentia has no further payment obligations once the contributions have been paid.

(b) Share based compensation

Sagentia operates an equity-settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as calculated by using an appropriate valuation method. The Black-Scholes model excludes the impact of any non-market vesting conditions (for example profitability and sales growth targets). The Monte Carlo and Binomial Option Pricing models build in any market performance 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, and a corresponding adjustment to equity over the remaining vesting period.

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 share based compensation charge in the Company accounts is based only on those option holders employed directly by the Company.

(c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Sagentia recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(d) Profit-sharing and bonus plans

Sagentia recognises a liability and an expense for bonuses and/or profit-sharing, based on the incentive plans approved by the Remuneration Committee. Sagentia recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Sales commission

Sagentia operates a sales commission scheme for relevant sales staff. A liability and expense is recognised based on sales made by employees who are eligible for the scheme, and is calculated using the commission scheme rules. Sales commission is paid quarterly and is only payable to the employee when cash has been received from the customer.

2.17 Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is provided, 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, if the deferred income tax arises from goodwill, the 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 nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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 income 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, except where the timing of the reversal of the temporary difference is controlled by Sagentia and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements continued

For the year ended 31 December 2014

2 Summary of significant accounting policies (continued)

2.18 Income tax

Income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws of the relevant countries that have been enacted or substantively enacted by the balance sheet date.

2.19 Leases

In accordance with IAS17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are treated as operating leases and are charged on a straight-line basis over the lease term, even if payments are not made on such a basis.

Income from property leases is recognised in the related period on a straight-line basis over the lease term. The majority of property leases are subject to mutual notice periods of up to 6 months.

2.20 Dividends

Dividends are recognised as a liability in the period in which the shareholders' right to receive payment has been established.

3 Financial risk management

3.1 Financial risk factors

Sagentia's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest risk), credit risk, liquidity risk and cash flow interest rate risk. Sagentia's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Sagentia's financial performance. Sagentia uses derivative financial instruments to hedge certain risk exposures.

(a) Foreign currency sensitivity

Sagentia operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities.

To manage the Group's foreign exchange risk arising from commercial transactions, recognised assets and liabilities, entities in Sagentia may use forward contracts and other instruments. Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group finance function is responsible for managing the net position in each foreign currency by using external forward currency contracts. There were no open forward currency contracts at the year end.

Sagentia has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Notes to the Financial Statements continued

For the year ended 31 December 2014

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Foreign currency sensitivity (continued)

Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

2014 £000	US\$	Euro	Others	Total
Financial assets	4,270	1,067	-	5,337
Financial liabilities	(40)	(98)	-	(138)
Exposure	4,230	969	-	5,199

2013 £000	US\$	Euro	Others	Total
Financial assets	3,095	966	-	4,061
Financial liabilities	(87)	(2)	-	(89)
Exposure	3,008	964	-	3,972

All foreign currency denominated financial assets and liabilities are classified as current.

The following table illustrates the sensitivity of the net movement on reserves and equity in regards to Sagentia's financial assets and financial liabilities and the US dollar/GBP exchange rate and Euro/GBP exchange rate. It assumes a +/- 10.0% change of the GBP/US dollar exchange rate for the year ended 31 December 2014 (2013: 10.0%). A +/- 10.0% change is considered for the GBP/Euro exchange rate (2013: 10.0%).

If the GBP had strengthened against the US dollar and Euro by 10.0% (2013: 10.0%) respectively then this would have had the following impact:

2014 £000	US\$	Euro	Total
Income statement	(392)	(106)	(498)
Equity	(392)	(106)	(498)

2013 £000	US\$	Euro	Total
Income statement	(273)	(88)	(361)
Equity	(273)	(88)	(361)

For a 10.0% weakening of GBP against the relevant currency, there would be a comparable but opposite impact on the income statement and equity.

The Company held no financial assets or liabilities in foreign currencies at the start or end of the year.

The actual rate movement against the US dollar and Euro for the year was -6.3% (2013: +2.1%) and +6.6% (2013: -2.0%) respectively. Exposures to foreign exchange rates vary during the year depending on the volume and value of overseas transactions.

Notes to the Financial Statements continued

For the year ended 31 December 2014

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Interest rate sensitivity

Sagentia manages its longer term cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, Sagentia raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if Sagentia borrowed at fixed rates directly. Under the interest rate swaps, Sagentia agrees with other parties to exchange, at specified intervals (typically quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Sagentia's bank borrowings and its interest rate profile are as follows:

Group	2014	2013
	£000	£000
Sterling – bank loan	8,750	9,750
Weighted average interest rate	%	%
Sterling – fixed rate bank loan	3.89%	3.89%
Sterling – floating rate bank loan	LIBOR+2.0%	LIBOR+2.0%

For benchmark rates of interest, Sagentia refers to the LIBOR rate.

The bank loan is secured via a fixed charge over certain assets of Sagentia and is repayable as disclosed in Note 21. Terms and conditions of the interest rate swap are as disclosed in Note 21.

(c) Credit risk analysis

Sagentia has policies in place to ensure that sales are made to clients with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions although counterparty risk is not negligible. Sagentia has policies that limit the amount of credit exposure to any financial institution.

Sagentia's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	Company		Group	
	2014	2013	2014	2013
	£000	£000	£000	£000
Cash and cash equivalents	5,231	5,281	23,802	22,428
Trade and other receivables	14,044	9,918	4,946	4,764
	19,275	15,199	28,748	27,192

Sagentia monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Sagentia's policy is to deal only with creditworthy counterparties or to require settlement in advance, although there can be no certainty that counterparty creditworthiness will be maintained. Cash balances are held with more than one creditworthy institution.

Management reviews the credit status of the financial institutions with whom it holds its deposits.

Sagentia's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of Sagentia's financial assets are secured by collateral or other credit enhancements.

Notes to the Financial Statements continued

For the year ended 31 December 2014

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk analysis

Sagentia manages its liquidity needs by monitoring scheduled debt servicing payments for long term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a weekly and monthly basis. Long term liquidity needs for a quarterly and semi-annual period are reviewed monthly.

Sagentia maintains cash to meet its liquidity requirements in interest bearing current accounts.

As at 31 December 2014, Sagentia's financial liabilities have contractual maturities which are summarised below:

2014	Current		Non-current	
	< 6 months	6 to 12 months	1 to 5 years	> 5 years
	£000	£000	£000	£000
Bank borrowings	500	500	7,750	-
Other borrowings	5	4	28	-
Interest on bank borrowings	163	154	677	-
Trade payables	484	-	-	-
Accruals	2,196	-	-	-
Financial instruments	-	-	203	-
Contingent consideration	-	-	-	-
	3,348	658	8,658	-

This compares to the maturity of Sagentia's financial liabilities in the previous reporting period as follows:

2013	Current		Non-current	
	< 6 months	6 to 12 months	1 to 5 years	> 5 years
	£000	£000	£000	£000
Bank borrowings	500	500	8,750	-
Other borrowings	10	10	28	-
Interest on bank borrowings	182	173	995	-
Trade payables	342	-	-	-
Accruals	3,479	-	-	-
Financial instruments	-	-	41	-
Contingent consideration	-	-	104	-
	4,513	683	9,918	-

Notes to the Financial Statements continued

For the year ended 31 December 2014

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(e) Summary of financial assets and liabilities by category

The carrying amounts of Sagentia's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Loans and receivables:				
- Trade receivables	-	-	4,202	3,544
- Other receivables	14,044	9,918	744	1,220
- Cash and cash equivalents	5,231	5,281	23,802	22,428
	19,275	15,199	28,748	27,192
Financial liabilities at amortised cost:				
- Non-current borrowings	-	-	7,778	8,778
- Current borrowings	-	-	1,009	1,020
- Trade payables	37	24	484	342
- Accruals	85	173	2,196	3,479
	122	197	11,467	13,619
Derivatives used for hedging:				
- Financial instruments	-	-	203	41
	-	-	203	41
Financial liabilities measured at fair value through profit or loss:				
- Contingent consideration	-	-	-	104
	-	-	-	104

3.2 Fair value estimation

Financial assets and liabilities measured at fair value in the balance sheet are grouped into three levels based on the significance used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2 – inputs other than quoted market prices included within level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – input for the asset or liability that are not based on observable market data (unobservable inputs)

The level within which the financial asset or liability is determined based on the lowest level of significant input to the fair value measurement.

The Group has measured the interest rate swap at fair value, and it has been measured under level 2.

The Group's finance team performs valuations of financial items for financial reporting purposes in consultation with third party valuation specialists for complex valuations. The valuation techniques used for instruments categorised in levels 2 and 3 are described below:

Interest rate swap: the fair value is estimated by discounting the future contracted cash flows, using readily available market data.

Contingent consideration: the fair value of contingent consideration related to the acquisition of Quadro is estimated using a present value technique and is calculated by probability-weighting the estimated future cash outflows.

Notes to the Financial Statements continued

For the year ended 31 December 2014

3 Financial risk management (continued)

3.3 Capital 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 structure to reduce the cost of capital and to provide funds for merger and acquisition activity.

The Group primarily views its capital as being its shareholders' funds, net funds (being gross cash less borrowings) and the freehold property at Harston Mill.

	Group	
	2014 £000	2013 £000
Total shareholders' funds	33,449	31,068
Net funds (cash less borrowings)	15,015	12,630
Freehold property at Harston Mill	13,590	13,657

Shareholders' funds

In 2014 Sagentia Limited paid a dividend distribution of £6.5 million (2013: £5.0 million) and OTM Consulting Limited paid a dividend distribution of £0.5 million (2013: £Nil) to Sagentia Group plc. These dividends, offset by the loss of £0.6 million made by the Company in the year ended 31 December 2014, have resulted in the Company having distributable reserves of £22.5 million at 31 December 2014 (2013: £16.1 million).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Board will recommend the payment of a dividend of 4.0 pence per share at the forthcoming AGM (2013: 1.1 pence). The Board anticipates recommending a single dividend being paid each year.

Net funds

The net funds of the Group have increased by £2.4 million in 2014 because of profitable trading in the year and effective cash flow management as set out in the Consolidated Statement of Cash Flows.

Details of the Group's borrowings are set out in Note 21 which summarises the terms of the loan and interest swap arrangement.

Freehold property

Details of the freehold property and the related rental income are set out in Note 14.

Notes to the Financial Statements continued

For the year ended 31 December 2014

4 Segment information

Sagentia is organised on a worldwide basis into two segments, Core Business and Other. 'Core Business' activities include the two industry sectors (Medical and Commercial) which Sagentia services and includes all Consultancy fees for services operations, including recharged expenses and product/licence revenue generated directly from these activities. 'Other' activities include rental income from Harston Mill and income from the provision of external IT services. The segmental analysis is reviewed up to adjusted operating profit. Other resources are shared across the Group.

Year ended 31 December 2014	Core Business £000	Other £000	Total £000
Fees	25,672	-	25,672
IT support	-	128	128
Property income	-	1,024	1,024
Recharged project expenses	1,423	25	1,448
Product and licence income	57	-	57
Revenue	27,152	1,177	28,329
Adjusted operating profit	5,196	207	5,403
Amortisation and impairment of intangible assets			(229)
Share based payments			(431)
Operating profit			4,743
Finance charges (net)			(542)
Profit before income tax			4,201
Tax charge			(765)
Profit for the year from continuing operations			3,436
Year ended 31 December 2013	Core Business £000	Other £000	Total £000
Fees	25,765	-	25,765
IT support	-	637	637
Property income	-	1,171	1,171
Recharged project expenses	2,105	455	2,560
Product and licence income	463	-	463
Revenue	28,333	2,263	30,596
Adjusted operating profit	5,962	(218)	5,744
Amortisation of acquisition related intangible assets			(109)
Share based payments			(283)
Operating profit			5,352
Finance charges (net)			(413)
Profit before income tax			4,939
Tax charge			(306)
Profit for the year from continuing operations			4,633

Notes to the Financial Statements continued

For the year ended 31 December 2014

4 Segment information (continued)

Geographical segments

Revenue and non-current assets (excluding deferred tax assets) by geographical area are as follows:

	2014		2013	
	Revenue £000	Non-current assets £000	Revenue £000	Non-current assets £000
United Kingdom	7,153	19,781	7,430	20,110
Other European countries	3,667	-	3,424	-
North America	16,546	2	19,111	7
Other	963	-	631	-
Total	28,329	19,783	30,596	20,117

For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based. Non-current assets are allocated based on their physical location.

During 2014 there was no single customer that accounted for 10% or more of the Group's revenues. In 2013, £3.8 million (12%) of the Group's revenues depended on a single customer in the Core Business segment, based in North America.

5 Operating expenses

Expenses by nature		Group	
Year ended 31 December	Note	2014 £000	2013 £000
Employee remuneration and benefit expenses (excluding share based payment charge)	7	14,629	14,557
Operating third party expenses		2,268	3,855
Occupancy costs		2,078	1,952
Equipment and consumables		324	859
Selling and marketing expenses		1,756	1,404
Depreciation of property, plant and equipment	14	445	332
Patent fees		50	49
Recruitment and training		203	372
Foreign currency losses		(5)	(23)
Other		1,178	1,495
		22,926	24,852
Included above		2014 £000	2013 £000
Research and development *		6,619	7,469
Operating lease rentals			
- Plant and machinery		40	18
Auditors' remuneration			
Services to the Company and its subsidiaries:			
Fees payable to the Company's auditors for the audit of the financial statements		10	10
Audit of the financial statements of the Company's subsidiaries pursuant to legislation		42	43
Other non-audit fees		37	49

*R&D costs are represented by staff and material costs incurred in relation to R&D projects

Notes to the Financial Statements continued

For the year ended 31 December 2014

6 Finance income and finance costs

Finance costs include all interest-related income and expenses through profit or loss. The following have been included in the income statement for the reporting periods presented:

	Group	
	2014	2013
Year ended 31 December	£000	£000
Finance income		
Bank interest receivable and similar income	28	54
Finance costs		
Bank borrowings	(367)	(467)
Change in fair value of interest rate swap	(203)	-
	(570)	(467)

7 Employee benefit expenses

Employment costs are shown below:

	Group	
	2014	2013
Year ended 31 December	£000	£000
Wages and salaries (including bonuses and healthcare costs)	11,986	12,106
Social security costs	1,661	1,722
Sales commission	229	95
Pension costs	753	634
	14,629	14,557
Share based payments	431	283
	15,060	14,840

The average monthly number of persons employed (including Executive and Non-Executive Directors) by Sagentia was as follows:

	Group	
	2014	2013
Year ended 31 December		
Technology consultants	167	156
Marketing, support, administration and other technically-qualified staff	41	34
	208	190

Notes to the Financial Statements continued

For the year ended 31 December 2014

8 Directors' remuneration, interests and transactions

Directors' emoluments and benefits include:

Year ended 31 December 2014	Salary/fee	Bonus	Pension contribution	Taxable benefits	Compensation for loss of office	Total
Name of Director	£000	£000	£000	£000	£000	£000
Courtley	34	-	-	-	-	34
Elton	22	-	1	1	-	24
Glover	34	-	-	-	-	34
Hemsted	105	25	5	1	-	136
Lacey-Solymar	34	-	-	-	-	34
Ratcliffe	275	-	-	-	-	275
Aggregate emoluments	504	25	6	2	-	537

Year ended 31 December 2013	Salary/fee	Bonus	Pension contribution	Taxable benefits	Compensation for loss of office	Total
Name of Director	£000	£000	£000	£000	£000	£000
Courtley	30	-	-	-	-	30
Elton	161	-	12	8	123	304
Glover	30	-	-	-	-	30
Lacey-Solymar	30	-	-	-	-	30
Ratcliffe	275	-	-	-	-	275
Aggregate emoluments	526	-	12	8	123	669

Directors' emoluments and benefits are stated for the Directors of Sagentia Group plc only. In addition to the above, a share based payment charge of £26,000 was recognised in the income statement relating to share options held by Directors (2013: £28,000).

The amounts shown were recognised as an expense during the year related to the Directors of the Company. Bonuses, pension and medical benefits are not paid to Non-Executive Directors.

Total social security costs related to Directors during the year was £67,000 (2013: £81,000).

Neil Elton resigned effective 14 February 2014. All payments to Neil Elton relating to compensation for loss of office were included in the 2013 directors' remuneration.

The above figures for emoluments do not include any gains made on the exercise of share options received under long term incentive schemes (2013: Nil).

Directors' interests in the shares of Sagentia at 31 December 2014 and 31 December 2013, and any changes subsequent to 31 December 2014, are as follows:

Sagentia Group plc Ordinary shares of £0.01	Options				Shares	
	2014		2013		2014	2013
	Average exercise price (pence)	Number	Average exercise price (pence)	Number	Number	Number
Hemsted	1.0	-	150,000	-	-	-
Ratcliffe	40.0	40.0	2,500,000	2,500,000	12,512,906	12,512,906
Courtley	-	-	-	-	375,000	375,000
			2,650,000	2,500,000	12,887,906	12,887,906

See Note 20 for further details on option plans. Neil Elton retired from being a Director in 2014. He was a Director at 31 December 2013 and held 171,914 shares and had 100,000 share options at this date.

Notes to the Financial Statements continued

For the year ended 31 December 2014

9 Income tax

The tax (charge)/credit comprises:

Year ended 31 December	2014 £000	2013 £000
Current taxation	(120)	(223)
Adjustment to prior year	97	48
Deferred taxation (Note 10)	(742)	(131)
	(765)	(306)

The tax on Sagentia's profit before tax differs from the theoretical amount that would arise using the weighted average statutory tax rate applicable to profits of the consolidated companies as follows:

	2014 £000	2013 £000
Profit before tax	4,201	4,939
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	(903)	(1,149)
Expenses not deductible for tax purposes	(160)	(125)
Adjustment in respect of prior periods	97	48
Share scheme deduction	210	-
Movement in deferred tax due to change in tax rate	(9)	(144)
Unprovided tax losses	-	1,064
Tax (charge)/credit	(765)	(306)

The weighted average statutory applicable tax rate was 21.5% (2013: 23.3%).

The Group has available tax losses of approximately £17.6 million (2013: £20.9 million).

10 Deferred income tax

	2014 £000	2013 £000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	938	1,767
Deferred tax asset to be recovered within 12 months	930	867
	1,868	2,634
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	(1,683)	(2,172)
	(1,683)	(2,172)
Total	185	462

Notes to the Financial Statements continued

For the year ended 31 December 2014

10 Deferred income tax (continued)

The gross movement on the deferred income tax account is as follows:

	2014 £000	2013 £000
Beginning of the year	462	1,103
Acquisition of subsidiaries in the year	-	(510)
Income statement charge (Note 9)	(742)	(131)
Movement in equity	465	-
End of year	185	462

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liability £000	Deferred tax asset £000	Total £000
At 1 January 2013	(2,220)	3,323	1,103
Acquisition of subsidiaries in the year	(510)	-	(510)
Charged to the income statement	558	(689)	(131)
At 31 December 2013	(2,172)	2,634	462
Charged to the income statement	24	(766)	(742)
Charged to equity	465	-	465
At 31 December 2014	(1,683)	1,868	185

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred tax liabilities are recognised against accelerated capital allowances.

Deferred taxation amounts provided and not provided in the financial statements are as follows:

Group	Provided		Not provided	
	2014 £000	2013 £000	2014 £000	2013 £000
Deferred taxation is attributable to:				
Accelerated capital allowances	(2,007)	(2,007)	-	-
Tax losses available	1,868	2,634	1,723	1,782
Acquisition related intangible assets	(401)	(432)	-	-
Other temporary differences	725	267	-	-
Deferred tax asset	185	462	1,723	1,782
Tax losses relating to deferred tax asset not recognised	-	-	8,262	8,262
Company	Provided		Not provided	
	2014 £000	2013 £000	2014 £000	2013 £000
Deferred taxation is attributable to:				
Tax losses available	6	-	-	6
Other temporary differences	417	-	-	-
Deferred tax asset	423	-	-	6
Tax losses relating to deferred tax asset not recognised	-	-	-	29

Notes to the Financial Statements continued

For the year ended 31 December 2014

11 Earnings per share

The calculation of earnings per share is based on the following result and numbers of shares:

	2014			2013		
	Profit after tax £000	Weighted average number of shares	Pence per share	Profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	3,436	38,500,084	8.9	4,633	37,424,309	12.4
Effect of dilutive potential ordinary shares: share options	-	4,029,210	(0.8)	-	3,910,418	(1.2)
Diluted earnings per ordinary share	3,436	42,529,294	8.1	4,633	41,334,727	11.2
Effect of adjustments*	660	-	1.5	392	-	1.0
Adjusted diluted earnings per ordinary share*	4,096	42,529,294	9.6	5,025	41,334,727	12.2

* Adjustments made to profit after tax are as set out within the Consolidated Income Statement

Adjusted basic earnings per share for continuing operations in 2014 were 10.6 pence (2013: 13.4 pence).

Only the share options granted, as disclosed in Note 20, are dilutive. The number of shares in issue (excluding treasury shares) at 31 December 2014 is 37,336,615 (2013: 38,538,230).

12 Dividends

The proposed final dividend for 2013 of 1.1 pence per share was approved by the Board on 20 May 2014. An amount of £0.4 million was recognised as a distribution to equity holders in the year ended 31 December 2014.

The Board has proposed a final dividend for 2014 of 4.0 pence per share. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £1.5 million has not been included as a liability as at 31 December 2014.

Notes to the Financial Statements continued

For the year ended 31 December 2014

13 Intangible assets

Group	Customer contracts and relationships £000	Goodwill £000	Total £000
Cost			
At 1 January 2013	-	-	-
Acquisitions through business combinations	2,167	3,577	5,744
At 31 December 2013 and 31 December 2014	2,167	3,577	5,744
Accumulated amortisation			
At 1 January 2013	-	-	-
Amortisation charged in year	(109)	-	(109)
At 31 December 2013	(109)	-	(109)
Amortisation charged in year	(184)	-	(184)
At 31 December 2014	(293)	-	(293)
Accumulated impairment			
At 1 January 2013 and 31 December 2013	-	-	-
Impairment losses for the year	(7)	(119)	(126)
At 31 December 2014	(7)	(119)	(126)
Carrying amount			
At 31 December 2013	2,058	3,577	5,635
At 31 December 2014	1,867	3,458	5,325

Reconciliation of amortisation and impairment to the Consolidated Income Statement:

	2014 £000	2013 £000
Amortisation of intangible assets	(184)	(109)
Impairment of goodwill and intangible assets relating to Quadro	(126)	-
Write-off of contingent consideration relating to Quadro	81	-
Amortisation and impairment of intangible assets	(229)	(109)

Goodwill and acquisition related intangible assets recognised arose from acquisitions during 2013.

Goodwill relating to Quadro Design Limited was fully impaired during 2014. The remaining goodwill balance relates wholly to the acquisition of OTM Consulting Limited.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating profit margins.

The Group monitors its post-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rates applying to CGUs, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for post-tax cash flows.

The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates cash flows for the following two years based on forecast growth rates of the CGUs. The growth rates are based on internal growth forecasts of between 5.0% and 5.5%. The terminal rate used for the value in use calculation is 2.25%.

The operating profit margin for the CGU that is incorporated in the cash flow forecasts is derived from the most recent financial plan approved by the Board. The PBIT margin used in the value in use calculations is 17.3%.

Sensitivity analysis

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. A decrease in the PBIT margin by 1.5 percentage points would cause the carrying value of goodwill to equal its recoverable amount.

Notes to the Financial Statements continued

For the year ended 31 December 2014

14 Property, plant and equipment

Group	Freehold land and buildings £000	Furniture and fittings £000	Equipment £000	Total £000
Cost				
At 1 January 2013	16,681	885	683	18,249
Exchange differences on cost	-	-	(1)	(1)
Additions	-	280	139	419
Additions on acquisition	-	18	70	88
Disposals	-	(11)	(8)	(19)
At 1 January 2014	16,681	1,172	883	18,736
Exchange differences on cost	-	-	3	3
Additions	-	337	91	428
Disposals	-	(6)	(14)	(20)
At 31 December 2014	16,681	1,503	963	19,147
Accumulated depreciation				
At 1 January 2013	2,957	511	479	3,947
Depreciation charge	67	132	133	332
Exchange differences on depreciation	-	-	(1)	(1)
Disposals	-	(11)	(13)	(24)
At 1 January 2014	3,024	632	598	4,254
Depreciation charge	67	228	150	445
Exchange differences on depreciation	-	-	3	3
Disposals	-	(1)	(12)	(13)
At 31 December 2014	3,091	859	739	4,689
Carrying amount				
At 31 December 2013	13,657	540	285	14,482
At 31 December 2014	13,590	644	224	14,458

The property is held at cost less accumulated depreciation. Included within land and buildings for Sagentia is freehold land to the value of £1,360,000 (2013: £1,360,000) which has not been depreciated. Cumulative interest capitalised up to 31 December 2003 was £340,000. No further interest has been capitalised since. The property was last valued during August 2013 by Savills for Lloyds TSB. Under the assumptions used, including tenant covenant strength and market rents, the indicative valuation range for the building was between £12.9 million based on occupational tenancies where the head lease is merged into the freehold interest, and £18.0 million under a sale and leaseback scenario.

The property generated third party rental and services income of £1,024,000 (2013: £1,171,000). Of this income, £549,000 was rental income and £475,000 was services income. Services income includes, but is not limited to, utilities, cleaning, general maintenance and use of subsidised restaurant facilities.

The total space on the Harston site available for business use is 97,000 sq ft. Of this space, the average total space let to third parties during 2014 was 29,500 sq ft (2013: 34,400 sq ft). The leases to tenants are typically for a 36 month term and normally have a termination notice period of 3 to 6 months. An average of 41,200 sq ft (2013: 33,300 sq ft) was used by the Group during the year for its business activities including office space and lab space and 20,000 sq ft are common areas. The remaining space of 6,300 sq ft (2013: 9,300 sq ft) was vacant during the year.

Given the continuing rental values and occupancy rates the Directors do not believe that the carrying value of the property of £13,590,000 (2013: £13,657,000) is significantly different to its fair value determined during the year. The interest in freehold land and buildings has been charged as security to the bank loan (see Note 21).

Sagentia Group plc had no fixed assets at the start or end of the year.

Notes to the Financial Statements continued

For the year ended 31 December 2014

15 Investments

Group investments

Sagentia held investments in the following subsidiaries at 31 December 2014. The Directors do not consider that any of its investments are associates and to avoid a statement of excessive length, details of investments that are not significant have been omitted.

Subsidiaries of Sagentia Group plc	Country of incorporation	Principal activity	Shares held	%
Consulting operations				
Sagentia Limited*	England	Consultancy	Ordinary	100
Sagentia Technology Advisory Limited (formerly Sagentia Holdings Limited)*	England	Holding company	Ordinary	100
OTM Consulting Limited*	England	Consultancy	Ordinary	100
Quadro Design Limited (formerly QDA Limited)	England	Consultancy	Ordinary	100
Manage5Nines Limited**	England	IT Consultancy	Ordinary	100
Sagentia Inc.	USA	Consultancy	Ordinary	100
OTM Consulting Inc.	USA	Consultancy	Ordinary	100

* Direct subsidiaries of Sagentia Group plc as at 31 December 2014

** Manage5Nines ceased to trade during 2014

All subsidiaries for which accounts are provided have year ends of 31 December

Company investments

	Total £000
Cost	
At 31 December 2013 and 31 December 2014	16,818

Notes to the Financial Statements continued

For the year ended 31 December 2014

16 Trade and other receivables

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Current assets				
Trade receivables	-	-	4,269	3,625
Provision for impairment	-	-	(67)	(81)
Trade receivables – net	-	-	4,202	3,544
Amounts recoverable on contracts	-	-	728	1,211
Other receivables	-	-	16	9
Amounts owed by group undertakings	14,044	9,918	-	-
VAT	26	9	-	-
Prepayments	186	12	528	508
	14,256	9,939	5,474	5,272

All amounts disclosed above are receivable within 90 days.

All of Sagentia's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were considered to be impaired and a provision of £67,000 (2013: £81,000) has been provided at 31 December. In addition, some of the unimpaired trade receivables are past due as at the reporting date.

	Group	
	2014 £000	2013 £000
Provision brought forward	81	121
Debts written off	(24)	-
Provision released	(30)	(58)
Provision made	40	18
Provision carried forward	67	81

The age of trade receivables overdue but not impaired is as follows:

	Group	
	2014 £000	2013 £000
Not more than 3 months	2,767	1,293
More than 3 months but not more than 6 months	-	-
More than 6 months but not more than 1 year	-	-
More than 1 year	-	-
	2,767	1,293

All impaired receivables are overdue by more than 60 days.

Notes to the Financial Statements continued

For the year ended 31 December 2014

17 Cash and cash equivalents

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Short term bank deposits	4,880	4,873	9,956	9,935
Cash at bank and in hand	351	408	13,846	12,493
	5,231	5,281	23,802	22,428

18 Current liabilities

	Note	Company		Group	
		2014 £000	2013 £000	2014 £000	2013 £000
Trade and other payables – current					
Payments received on account		-	-	2,845	2,025
Trade payables		37	24	484	342
Other taxation and social security		22	24	344	351
VAT		-	-	69	12
Deferred income		-	-	845	896
Accruals		63	173	2,196	3,479
		122	221	6,783	7,105
Bank borrowings	21	-	-	1,000	1,000
Other borrowings	21	-	-	9	20
Current tax liabilities		5	3	22	155
		127	224	7,814	8,280

19 Other non-current liabilities

	Note	Group	
		2014 £000	2013 £000
Bank borrowings	21	7,750	8,750
Other borrowings	21	28	28
		7,778	8,778
Other payables		-	112
Interest rate swap		203	41
Deferred income tax liabilities		1,683	2,172
		9,664	11,103

Notes to the Financial Statements continued

For the year ended 31 December 2014

20 Called-up share capital

	2014 £000	2013 £000
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	421	420
	Number	Number
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	42,062,035	42,042,035

The allotted, called-up and fully paid share capital of the Company as at 31 December 2014 was 42,062,035 shares (2013: 42,042,035). At the beginning of 2014, 3,503,805 of these shares were held by the Company as treasury shares.

During 2014 the Company issued 20,000 shares out of share capital as deferred consideration for the purchase of Quadro Design Limited and 368,385 treasury shares in the settlement of the exercise of share options. The Company also purchased 1,590,000 of its own shares. As a result, as at 31 December 2014, the total number of ordinary shares in issue (excluding treasury shares) was 37,336,615 (2013: 38,538,230) and the number of treasury shares held was 4,725,420 (2013: 3,503,805) equivalent to 12.7% of the Company's issued share capital. It is the intention of the Company to hold the treasury shares for the purpose of settling employee share schemes and for settling cash consideration in any future business acquisitions, and in limited circumstances to satisfy investor demand which market liquidity is unable to meet. No dividend or other distribution may be made to the Company in respect of the treasury shares.

Reconciliation of outstanding options	2014		2013	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At beginning of year	6,207,385	48.9	6,233,385	56.2
Granted during year	465,000	1.0	1,062,500	1.0
Exercised during year	(368,385)	44.2	(928,500)	39.7
Lapsed during the year	(220,000)	44.7	(160,000)	60.4
At end of year	6,084,000	45.5	6,207,385	48.9

The options outstanding at 31 December 2014 had a weighted average contractual life of 6.9 years (2013: 7.6 years).

Included within the total outstanding options at 31 December 2014 are 3,316,500 options which are exercisable (31 December 2013: 3,139,885). The weighted average exercise price of exercisable options at the end of the year was 47 pence (2013: 40 pence).

Options exercised during the year had a weighted average share price at the date of exercise of 44 pence (2013: 137 pence).

Exercise of an option is subject to continued employment, and normally lapses within three months of leaving employment.

The fair values of options granted were determined using a variation of the binomial option pricing model that takes into account factors specific to the share incentive plans including performance conditions. The performance conditions attached to options granted in the year are such that 50% of the options vest dependent on the company achieving earnings per share targets and 50% are dependent on a total shareholder return performance condition. The performance conditions, which are market conditions, have been incorporated into the measurement by means of actuarial modelling. For options granted in the year, a risk free rate of 1.21% to 1.27% has been used and a dividend yield factor of 1%. The share price on the date the options were granted was 140 pence in May 2014 and 124 pence in September 2014. The other principal assumptions used in the valuation are set out in the table below. The underlying expected volatility was determined by reference to historical data of the Company's shares over the vesting period.

The total charge for the year relating to employee share based payment plans was £431,000 (2013: £283,000), all of which related to equity-settled share based payment transactions.

Notes to the Financial Statements continued

For the year ended 31 December 2014

20 Called-up share capital (continued)

At 31 December 2014, options granted to subscribe for ordinary shares of the company are as follows:

Date of grant	Option exercise period		Number of shares under option				Exercise price (pence)	Fair value of options (pence)	Life (years)	Volatility
	From (a)	To	Approved	Unapproved	Incentive	Performance Share Plan				
Dec 2007	Dec 2009	Dec 2017	-	73,539	-	-	45.0	28.8	10	58%
Nov 2008	Nov 2011	Nov 2018	10,000	-	-	-	17.5	9.9	10	42%
Jun 2010	Jun 2013	Jun 2020	-	-	2,500,000	-	40.0	8.0	10	35%
Jul 2010	Jul 2013	Jul 2020	136,500	50,000	26,461	-	51.0	14.0	10	35%
Oct 2011	Oct 2014	Oct 2021	260,374	259,626	-	-	80.0	32.9	10	65%
Nov 2012	Nov 2015	Nov 2022	484,273	900,727	-	-	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	-	-	-	867,500	1.0	80.8	10	25%
Oct 2013	Oct 2016	Oct 2023	-	-	-	50,000	1.0	86.5	10	25%
May 2014	Mar 2017	Mar 2024	-	-	-	100,000	1.0	85.3	10	21%
Sep 2014	Sep 2017	Sep 2024	-	-	-	365,000	1.0	74.8	10	18%
			891,147	1,283,892	2,526,461	1,382,500				

(a) Subject to earlier exercise in certain limited circumstances
For all options granted prior to 2013, the exercise price is also the share price at date of grant

21 Borrowings

Group	Note	2014 £000	2013 £000
Non-current			
Bank borrowings	19	7,750	8,750
Other borrowings	19	28	28
		7,778	8,778
Current			
Bank borrowings	18	1,000	1,000
Other borrowings	18	9	20
		1,009	1,020
Total borrowings		8,787	9,798

Sagentia Group plc had no bank borrowings at the start or end of the year.

At 31 December 2014, the Group had a five year loan facility of £10.0 million on which interest is payable based on LIBOR plus 2.00% margin. The loan is secured on the freehold property and associated lease structure and, subject to a minimum cash balance of £2.0 million, it is not subject to covenants related to the operating performance of the Consultancy business.

At 31 December 2014, £8,750,000 (2013: £9,750,000) is outstanding and is repayable by Sagentia Ltd to Lloyds TSB Bank plc.

Notes to the Financial Statements continued

For the year ended 31 December 2014

21 Borrowings (continued)

In accordance with an agreed repayment schedule with the bank, bank borrowings are repayable to Lloyds TSB Bank plc as follows:

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Within 1 year	-	-	1,000	1,000
Between 1 and 2 years	-	-	1,000	1,000
Between 2 and 5 years	-	-	6,750	7,750
Over 5 years	-	-	-	-
	-	-	8,750	9,750

In order to address interest rate risk the Group has in place an interest rate swap agreement (swap), the effect of which is to fully hedge the interest payments on the bank facility borrowings. The swap is designated as the variable rate interest payable on the repayment loan facility of £10.0 million provided by Lloyds TSB Bank plc. The swap is contracted over the same period of the loan at a fixed rate of 1.89% pa, effectively fixing the Group's interest payments on the repayment loan facility at 3.89% pa, plus regulatory costs. The fair value of the swap at 31 December 2014 was a liability of £203,000 (2013: £41,000). In the year ended 31 December 2013, the Group applied hedge accounting, and therefore the change in fair value was included in the Consolidated Statement of Comprehensive Income. However, in 2014, the Group ceased to apply hedge accounting. As a result, the change in fair value of the swap from inception to 31 December 2014 is included in the Consolidated Income Statement in the year ended 31 December 2014.

Other borrowings relate to finance leases of £37,000 (2013: £48,000).

Notes to the Financial Statements continued

For the year ended 31 December 2014

22 Commitments

(a) Lease commitments

The minimum annual rentals under non-cancellable operating leases are as follows:

	Group	
	2014 £000	2013 £000 Restated
Plant and equipment lease commitments		
Operating lease payments:		
- Within 1 year	39	20
- Between 1 and 5 years	84	42
	123	62
Property lease rentals		
Operating lease payments:		
- Within 1 year	321	288
- Between 1 and 5 years	599	988
	920	1,276
	1,043	1,338

The lease commitments at 31 December 2013 have been restated to state the total lease commitments that will be paid in accordance with the contract, rather than the annual commitment which is what was disclosed in prior year.

(b) Other financial commitments

At 31 December 2014 the Group and the Company had other financial commitments of £Nil (2013: £Nil).

At 31 December 2014, the Group had a 5 year loan facility of £10.0 million secured on Harston Mill, Harston, near Cambridge, UK, of which £10.0 million (2013: £10.0 million) had been drawn down and the balance at 31 December 2014 was £8.75 million (2013: £9.75 million). This facility is repayable in September 2018 as detailed in Note 21. The Company has no loan facility at 31 December 2014 (2013: £Nil).

23 Contingent liabilities

The Group has provided a letter of credit issued by its bank on its behalf, in the ordinary course of business. The Directors are not aware of any circumstances that have given rise to a liability under the letter of credit and consider the possibility of any arising to be remote and therefore a fair value of £Nil (2013: £Nil) has been applied.

Notes to the Financial Statements continued

For the year ended 31 December 2014

24 Related party transactions

The Group provides support and consultancy services to its subsidiaries and made loans, all of which eliminate on consolidation, and are therefore not disclosed.

The Company held intercompany balances, and charged management fees as follows:

Company	2014	2014	2013	2013
	Loans	Sale of goods and services	Loans	Sale of goods and services
	£000	£000	£000	£000
Sagentia Limited	(13,481)	240	(9,918)	329
Sagentia Inc.	(11)	11	-	54
OTM Consulting Limited	(545)	45	-	27
Quadro Design Limited	(2)	2	-	4
Manage5Nines Limited	(2)	2	-	13
Sagentia Technology Advisory Limited	(3)	-	-	-
	(14,044)	300	(9,918)	427

During the year, Sagentia Group plc entered into transactions with Microgen plc. The Chairman of Sagentia Group plc, Martyn Ratcliffe, is Chairman of, and equity holder in, Microgen 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.

Sagentia Group plc also entered into a transaction with Clinetik Limited. One of the Directors of Sagentia Group plc, Michael Lacey-Solymar, is also a Director and shareholder of Clinetik Limited. Sagentia Limited (a subsidiary of Sagentia Group plc) entered into an agreement with Clinetik Limited on 26 September 2014 to lease office space to Clinetik Limited. During the year ended 31 December 2014 £3,000 was charged to Clinetik in relation to this agreement. £Nil was outstanding at year end.

The remuneration of the key management personnel of the Group, recognised in the income statement, is set out below in aggregate. Key management personnel include all members of the plc Board and the Operating Board of Sagentia Group.

Aggregate remuneration

Year ended 31 December	2014	2013
	£000	£000
Short-term employee benefits	1,360	1,617
Pension costs	48	54
Termination benefits	-	123
Share based payment transactions	116	89
	1,524	1,883

Notes to the Financial Statements continued

For the year ended 31 December 2014

25 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Sagentia makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Project accounting

Sagentia undertakes a number of consultancy projects where the final price to complete the project may be uncertain. The state of completeness of each project, and hence revenue recognised, requires the use of estimates. The value of work done is calculated based on proportion of time spent on the project or value of stage gates achieved as set out in the project. Management apply their judgement in assessing time required to complete the projects and the ability to recover the full project costs. Where significant uncertainty exists, income is deferred until costs are recovered or the project is completed.

(b) Accounting for freehold property at Harston Mill

Sagentia owns and maintains the freehold property at Harston Mill for use in the supply of its Core consultancy services and for administrative purposes.

Whilst there is remaining space on site not required to fulfil these activities Sagentia lets out space to third party tenants. The revenues and costs attributable to this activity are disclosed as 'Other' activities within the business segment disclosures. It is not accounted for as an investment property, the reasons being:

- (i) the third party leases include the use of common areas and because of this the areas that are leased to third parties could not be sold separately;
- (ii) the leases normally have notice periods of no more than 6 months giving Sagentia the flexibility to start using the areas if required, i.e. the leased areas are not held for capital appreciation or a return of investment through rental income.

26 Post balance sheet events

(a) Investment in subsidiary

On 18 February 2015, the Group acquired 100% of the share capital of Oakland Innovation Limited ('Oakland'), a Cambridge-based R&D consultancy specialising in technology innovation and market intelligence for the global consumer and healthcare markets.

The total cash consideration of £5.0 million was satisfied as to £3.6 million in cash on completion and as to £1.4 million satisfied by the sale of Sagentia's treasury shares, equivalent to 1,043,333 Sagentia shares at the average closing mid-market price of 130.7 pence on the five dealing days immediately prior to completion. The Sagentia shares are subject to lock-in periods of between 18 months and three years.

(b) Other investment

On 27 January 2015, the Group acquired 30% of the share capital of Creative (ID) Design Limited, a Cambridge-based Industrial Design consultancy, for a total cash consideration of £100,000.

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