ENERGISED & FOCUSSED

EMIS Group plc
Annual report and accounts 2018

emis group

The UK leader in connected healthcare software and services.

ENERGISED

EMIS Group's energy is directed towards growth in both the core NHS markets and the business-to-business (B2B) enterprise healthcare market, through the delivery of exciting technology innovations.

FOCUSSED

EMIS Group is focussed on delivering connected healthcare, through high-quality technology products and services, putting patient care and clinical standards at the heart of everything it does.

"The business performed well with growing revenues across all our key segments."

Andy Thorburn

Chief Executive Officer

Strategic report

Governance

Financial statements

Highlights

No. 1

market share in
Primary

No. 2

market share in
Hospital Pharmacy and Community

No. =1

market share in
Community Pharmacy and A&E

No. 1

market share in
Specialist and Care

No. 1

healthcare app 2.0*
Patient

All market shares as at 31 December 2018.

OPERATIONAL

- Growing revenues across all key segments, high levels of recurring revenue and good cash generation
- Progressive dividend policy maintained, with dividends up 10% versus last year
- Market shares maintained or increased in all major markets
- Positive progress in Primary, Community & Acute Care
- Strong financial performance in Community Pharmacy
- Double-digit revenue growth and significantly improved profitability in Specialist & Care
- Gathering momentum and continued investment in Patient.

Key performance indicators
Page 18

1 Recurring revenue, adjusted operating profit, adjusted cash generated from operations and adjusted EPS are all alternative performance measures. See page 20 for further details and reconciliation to the relevant IFRS number.

FINANCIAL

Total revenue
£170.1m +6%

Recurring revenue[1]
£140.7m +5%

Reported operating profit
£28.7m +170%

Adjusted operating profit[1]
£37.6m +1%

Reported cash generated from operations
£49.9m +2.1%

Adjusted cash generated from operations[1]
£54.5m +10%

Net cash
£15.6m +£1.6m

Reported EPS
36.1p +182%

Adjusted EPS[1]
47.4p +0.4%

Total dividend for the year
28.4p +10%

PURPOSE

Technology that makes a difference to UK healthcare

INTRODUCTION

NHS England's Long Term Plan, released in January 2019, sets out an aim to improve NHS services in every part of England. The NHS continues to face the challenge of growing demand on services coupled with pressures on funding and resources.

Technology is a key part of the solution, allowing the NHS to do more for less to enable better health for everyone. Better access to digital tools and patient records for staff is seen as crucial to make the NHS fit for the future and deliver the best care to patients.

From front line clinicians to NHS managers, the industry needs technology it can rely on, whether that is to treat patients daily or plan the best use of resources.

It needs technology that speeds up processes and helps support better patient outcomes.

That is EMIS Group's strength: combining its deep and thorough knowledge of healthcare with a commitment to deliver innovative technology that makes a difference.

For over 30 years, EMIS Group's passion for integrated healthcare has driven the goal to ensure that clinicians have access to the information they need through excellent technology.

Business model
Page 10

WHAT WE DO

- Provide the front line technology that clinicians rely on to manage patient care – from GPs to A&E doctors to community nurses and hospital pharmacists.
- Supply intelligent analysis software to help with planning and management.
- Bring people, data and systems together, whether that is connecting community clinicians using mobile solutions or partnering with innovative tech start-ups.
- Keep our customers up and running: from technical support to engineering to business continuity systems.
- Put patient care first: through technology at Patient or by providing the very best service to our customers and end-users.

SEGMENTS

71%
of revenue in 2018

PRIMARY, COMMUNITY & ACUTE CARE

Market-leading position maintained in primary. Moved to joint market leadership in A&E. Number two position maintained in community and hospital pharmacy.

15%
of revenue in 2018

COMMUNITY PHARMACY

Joint market leadership maintained in the provision of dispensary pharmacy management software for the community pharmacy market.

12%
of revenue in 2018

SPECIALIST & CARE

The number one private provider of diabetic screening services and the number one in providing screening software to the diabetic eye screening market.

2%
of revenue in 2018

PATIENT

10 million people trust Patient.info globally for health information, and Patient 2.0 is the UK's number one healthcare app.

BRANDS

EMIS HEALTH

The clinical software business of EMIS Group, supplying innovative and essential technology to 10,000 healthcare users across every major UK health sector.

EMIS CARE

The healthcare screening arm of EMIS Group, specialising in the delivery of retinopathy eye screening to 500,000 patients with diabetes, across the UK and Ireland.

EGTON

The specialists in non-clinical products, software and services to the health and social care market, supporting the operation of more than 5,000 healthcare organisations.

PATIENT

The leading independent online health platform, providing personalised online patient-facing services and trustworthy healthcare content accessed by 10 million visitors each month.

A very busy year at EMIS Group

"We saw significant progress operationally and strengthened our management teams considerably."

Mike O'Leary
Chairman

EMIS Group delivered a return to higher rates of revenue growth, driven organically, and trading expectations were met.

Dear Shareholder

It has been another very busy year at EMIS Group. We delivered a return to higher rates of revenue growth, driven organically, and trading expectations were met. We saw significant progress operationally in dealing with legacy issues to the satisfaction of our customers and we also strengthened our management teams considerably.

Most importantly, during the second half of the year, we crystallised our thoughts on strategic direction, culminating in the unveiling in November 2018 of plans for EMIS-X, our new clinical platform. More detail of this is included in the Chief Executive Officer's statement on pages 6 to 8.

Board changes

There were no changes to the Board during the year; however, the anticipated retirement of Robin Taylor at the 2019 Annual General Meeting (AGM) will result in the need to find a replacement. Robin has completed nine years of service with EMIS Group and on behalf of his colleagues, I should like to thank him sincerely for his sage advice and continual support throughout and wish him a long and happy retirement. Succession planning is underway. It should be noted that I shall also reach a ninth anniversary with the Company in early 2020 and thoughts are well formed on succession.

Corporate governance

The Board remains committed to the highest standards of corporate governance and also to professional and ethically sound standards in all that we do. This has been reflected in the way that we have operated in 2018 and it will continue in 2019 and beyond. Details of how our governance framework operates in practice and how risk is managed and mitigated are set out in the corporate governance report on pages 44 to 50, and principal risks and uncertainties on pages 22 to 27.

Dividend

A final dividend of 14.2p per share is recommended by the Board. The dividend progression is in line with the capital allocation policy adopted by the Group and will result in a total dividend for the year of 28.4p. Subject to approval by shareholders at the AGM on 8 May 2019, the final dividend will be paid on 13 May 2019 to shareholders on the register on 12 April 2019.

Our people

Finally in this statement, I should once again like to thank all of our employees for their terrific contribution to the growth and success of the Company and for their continued support as we move forward to the next stage of EMIS Group's development. We are uniquely positioned to create value for shareholders whilst simultaneously improving patient outcomes and contributing significantly to the efficiency of healthcare delivery across all sectors of care in the UK.

Mike O'Leary
Chairman
19 March 2019

> **"I would like to thank all of our employees for their terrific contribution to the growth and success of the Company."**

EMIS Group performing well

"We maintained our track record of high levels of recurring revenue, good cash generation and an increased dividend."

Andy Thorburn
Chief Executive Officer

Good revenue growth with profit in line with market expectations.

Overview

I am pleased with the overall results for the Group in my first full year as Chief Executive Officer. The business performed well with good revenue growth in the period and profit in line with market expectations, supported by growing revenues across all our key segments. We maintained our track record of high levels of recurring revenue, good cash generation and an increased dividend.

2018 was a year of preparation to take the business to the next stage, with strong foundations in place, the resolution of legacy issues and setting out our roadmap of innovative new technology solutions.

We worked hard throughout the year to improve our service and responsiveness to our loyal customers. During the period, we made the decision to invest in a new service management solution, ServiceNow, which we look forward to rolling out in 2019 to further enhance both our service and productivity levels.

Over the past twelve months, we have spent considerable management time developing our strategy and attracting new talent into the business with 21 key senior hires, while resolving outstanding legacy issues. With these strong foundations in place, we are energised and focussed on executing our new strategy and associated plans in 2019.

Key projects

1. GP IT Futures

GP IT Futures will replace the current framework agreement for GP Systems of Choice (GPSoC), used to procure GP software systems in the UK. The £450m framework is designed to encourage innovation and interoperability in the market, with suppliers required to meet interoperability standards set by NHS Digital (NHSD). The Group is currently engaged and, we believe, well positioned in the pre-procurement phase of the GP IT Futures process and we anticipate the formal procurement will begin shortly.

GP IT Futures sets out a series of core and non-core capabilities designed to empower the market and drive improvements through technology. The core capabilities largely reflect the present functionality of EMIS Web. Non-core capabilities include innovations we are already developing such as the patient-facing services we offer through Patient. Our strategy and roadmap for a new and enhanced cloud-based clinical platform (which we have named EMIS-X) further aligns the Group with NHS England's strategy.

2. EMIS Web clinical management system upgrade

In 2018 we announced an upgrade plan for our clinical management system, EMIS Web, which will be enabled by EMIS-X. Over time EMIS-X will become the platform for all EMIS Group solutions.

EMIS-X will be at the heart of our product roadmap, a plan which we have been developing over the past year. We have invested in our technology team, growing the development and test teams by 150 in the period in both the UK and India. Our core technology team now consists of 450 professionals, half of which we expect to be working on EMIS-X from 1 April 2019.

As a leading health technology company, we are committed to investing in our technology and people to provide increased benefits for our customers, users and partners.

3. Legacy issues

Much of the first half of 2018 was focussed on resolving legacy issues across our business. As announced on 7 December 2018, I am pleased to confirm that we have settled our service level reporting issue with our largest customer, NHSD, within the £11.2m provision previously made and announced.

We completed all 18 outstanding contracts within our Community business, while delivering and achieving customer sign off for 29 of our 30 legacy projects in Acute. The solution for the remaining project has been deployed and is currently in customer testing, which we anticipate will be resolved in the first half of 2019.

NHS Long Term Plan

One of the key market growth drivers is the NHS Long Term Plan, published in January 2019. The plan sets out the most pressing challenges and priorities facing the NHS over the next ten years. It clearly outlines that investment in technology will enable the ambitions of the plan to be realised, also highlighting a drive to upgrade technology and provide digitally enabled care across the NHS.

The NHS recognises that it needs a single view of the patient's interactions across the entire healthcare spectrum. This is achieved by better interoperability and availability of data when and where it is needed.

As a Group, we are committed to interoperability. Our clinical software and patient-facing services are designed to achieve this for the NHS and we are well placed to meet the objectives of the plan, helping the NHS drive forwards to the next stage of its integration, underpinned by technology.

Chief Executive Officer's statement continued

Future growth strategy

At our Capital Markets Day in November 2018 we set out our future growth strategy, summarised as follows:

- improve service performance and efficiency in our NHS business;
- rapidly grow our enterprise business;
- build sustainable sales momentum; and
- update and accelerate our technology roadmap.

This represents an attractive balance of opportunity for the Group in both our core NHS market, as well as in the developing enterprise market of B2B sales in the healthcare industry. These opportunities are underpinned by our overarching aim to join up healthcare through innovative technology.

We are focussed on connected care for the NHS within EMIS Health. We are investing in our teams, getting closer to customers and expanding our product portfolio to deliver NHS-wide value propositions. All of our customers, from primary to acute to community, as well as NHS England and NHSD, are asking us to help them join up care through connected technology. EMIS-X is the platform that will enable us to do this even more effectively and, when completed, we will have the UK's first integrated clinical platform serving all of our NHS end-users.

Our strategy is also to accelerate growth both organically and through acquisition in our enterprise business, where revenues are predominantly derived from the B2B private sector within the healthcare industry. This encompasses the medicines management and Patient areas of the Group, as well as our successful partner programme, in which 104 companies are working with us to create a powerful ecosystem of leading technology suppliers. Our vision of connecting care provides opportunities for us to deliver technology solutions to the fragmented medicines management process. With a strong presence in the community pharmacy and hospital pharmacy markets, we are well placed to offer joined-up technology to this area of healthcare.

With growing demand from the increasing pool of online Patient Access users, we also have a strong foundation for the future Patient marketplace, giving patients greater control over their healthcare through technology. We are also looking to new markets for opportunities to acquire additional capabilities to increase our speed to market. Our purchase in November 2018 of Dovetail Digital Limited ("Dovetail Lab"), a leading early stage UK technology business specialising in blockchain software for the healthcare market, is a perfect example of this strategy in action.

Looking to the medium-term, the expected financial outcomes from our growth strategy are expected to be mid-to-high single-digit revenue growth, moving towards an even split of revenue derived from our NHS and enterprise sectors and operating margins increasing towards 30%. Our investment in the development of our new technology platform, EMIS-X, will be self-funded through new sales and operational leverage.

People strategy

Our people are central to the delivery of the strategy and I am pleased with the expertise and increasing collaboration that I see from employees across the Group. We have been successful in both retaining and attracting key talent in 2018 and this will be a continued focus for us in 2019.

We boosted our clinical team to 64 people across the Group, including doctors, consultants, nurses and pharmacists. This team focusses on clinical safety, including providing clinical insight into how we develop our product portfolio and thinking about what medical professionals will need for the future.

We have upgraded our technical leadership with a new Group Chief Technology Officer, a new Head of Group Development and a new Head of Data Security. This provides us with a combination of new and existing talent, particularly exciting for the Group as we continue building EMIS-X.

During 2018, we have focussed on growing the commercial side of our business with new hires in business development, sales management and leadership of key business units for the Group. There will be an incremental focus on the commercial development of our business in 2019 and we are delighted to be welcoming a Chief Executive Officer for EMIS Health and a Chief Solutions Officer to our senior leadership team over the coming months.

Brexit

We anticipate that Brexit will have minimal direct effect on the Group as it is not a significant exporter or importer of goods or services. There are potential indirect effects, including exchange rate volatility affecting the value of sterling and increased pressure on NHS budgets, which could have a negative impact on the Group's prospects, but the scale and timing of these is far from certain. We will continue to monitor the progress of the negotiations of the terms under which the UK will leave the EU given the ongoing lack of certainty in this area.

Summary and outlook

EMIS Group is well positioned for future growth.

Our focus is on ensuring we secure our place on the GP IT Futures framework and on growing the private sector enterprise side of our business, including continuing to develop patient-facing technology, as set out at our Capital Markets Day in November 2018 and in our preliminary announcement.

Making the best use of data through technology remains a key focus for the NHS and we are well placed to deliver the digital solutions our customers and end-users need, both now and in the future. We are in alignment with NHS policy and fully support the Secretary of State for Health and Social Care's modernisation agenda. We will continue to invest in our exciting and valuable technology platforms serving both the public and private sectors and look to the future with confidence.

Andy Thorburn
Chief Executive Officer
19 March 2019

“We are well placed to help the NHS drive forwards to the next stage of integration.”

Andy Thorburn
Chief Executive Officer

Joined-up healthcare through innovative IT

OUR KEY INPUTS

- Innovative connected technology services.
- Highly skilled people.
- Trusted brand.
- Strong relationships strategically aligned with government, partners and the markets we serve.
- Strong revenue visibility.
- Responsible leadership.
- Strong culture of caring for both patients and customers.

Markets
Page 12

Our four key values underpin everything we do, throughout every area of the business

Caring
The Group has a strong culture of caring for its customers, its employees and about making a difference in its community. In 2018 EMIS Group supported employees in fundraising for Mind, the chosen Group charity.

Joined up
EMIS Group continues to bring its businesses closer together. In 2018 Primary, Community & Acute Care came together with Egton, and greater synergies were realised between the Community and Hospital Pharmacy businesses.

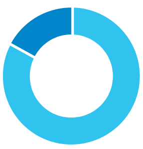
Innovative
EMIS Group has a long history of innovation. 2018 saw the Group unveil plans to launch EMIS-X, a leading-edge clinical platform onto which it plans to move all of its software.

Accountable
Every EMIS Group colleague now has accountable objectives that relate to divisional objectives and the overall Company strategy. From individual to collective organisational level this has increased accountability with tangible improvements being delivered across the Group, such as in customer service.

HOW WE GENERATE REVENUE

Through providing:

- Software and software licences.
- Software maintenance and support.
- Hosting services.
- Hardware installation, maintenance and support.
- Training, consultancy and implementation.
- Other support services, including screening services.
- Interoperability fees.
- B2B services in healthcare.



Financial review
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HOW WE ADD VALUE

CUSTOMERS
We help make integrated care a reality across Clinical Commissioning Groups (CCGs).

44
Out of 195 CCGs use EMIS Health systems for both community care and 100% of primary care

CLINICIANS
Our systems and services are designed to support healthcare on the front line.

10,000
Healthcare organisations rely on our clinical systems daily

UK PUBLIC
We provide trusted healthcare information and digital services for the UK general public.

10 million
Visitors to Patient.info every month

SHAREHOLDERS
We deliver long-term growth in dividends and share price.

28.4p
Dividend for the year

B2B
We provide B2B systems and services to enterprise customers in the healthcare market.

4,336
Community pharmacies use our software to deliver better customer service and drive up revenue

Why customers choose us

Clinically focussed
We enable clinicians to provide safe and efficient care through excellent software and services – helping patients live longer, healthier lives.

Trusted supplier
Our software and services are used in every major healthcare setting – from GP surgeries to high street pharmacies, community, hospitals and specialist services.

Joining up patient care
Through innovative technology, we are giving more and more healthcare professionals access to the information they need to provide the best possible front line healthcare.

Care about our customers
Clinically led development teams work with our customers to develop systems. That is why we consistently meet the needs of end-users.

Innovative
We are always looking at future technologies and trends to make sure we develop ground-breaking services that benefit patients, clinicians and NHS organisations.

The changing shape of NHS strategy places technology at the centre

The NHS Long Term Plan, published in January 2019 by NHS England, outlines a series of measures designed to improve the health of the nation. It aims to give patients "more options, better support, and properly joined-up care at the right time in the optimal care setting." The plan outlines that investments in technology and digital services are crucial to enabling these improvements to take place.

The situation for the NHS is complex: increasing demand through ageing populations and multiple long-term conditions, along with an unswerving commitment to offer the best quality of care, is challenged by the drive for efficiency and limits on available funding. Technology is increasingly proving to be the answer, with NHS IT programmes and funding streams created to invest in technology to address this challenge, including the Global Digital Exemplar (GDE) programme, Local Health Care Partnerships (LHCPs) and the GP IT Futures programme.

These pages outline three areas of major challenge for the NHS where technology and EMIS Group can make a real difference: integrated care, medicines management and digitally enabled patient care.

NHS integrated care

£4.5bn

investment to create Integrated Care Systems

MARKET DRIVERS

- Increased investment in primary and community health services of at least £4.5bn from 2019/20 to 2023/24 – creating Integrated Care Systems (ICS) with a driver to join up care.
- The GP IT Futures programme will fund a £450m investment into GP clinical systems over the next three years.
- LHCPs are being introduced to give health and care staff better and faster access to vital information about the people in their care. They will receive up to £7.5m each over two years to put in place an electronic shared local health and care record, covering 23.5 million people.

HOW EMIS GROUP CAN HELP

- To keep pace with NHS restructures and build stronger relationships, EMIS Health is engaging regionally to better understand LHCPs' locality needs and match propositions to their requirements.
- EMIS Group has been working on joined-up technology standards for many years and is committed to this principle. Current solutions are enabled to interconnect wherever technically possible and EMIS-X, the Group's new clinical platform, will fully support NHSD's interoperability standards in the future.
- EMIS-X will meet the NHS's desire to have more functionality than is presently available, including decision support, predictive techniques and artificial intelligence. This is ground-breaking for the customer and leads to new opportunities for the Group both in existing and new markets.
- EMIS Health's strong ecosystem of 104 partners work together to bring innovation, efficiency and high-tech solutions to the integrated care market.

	MARKET DRIVERS	HOW EMIS GROUP CAN HELP
Medicines management **£78m** will be given to 13 trusts to support electronic prescribing	• There is a drive to improve clinical safety in medicines management – up to 22,300 deaths are caused each year by prescribing errors and errors account for an annual financial cost of £1.6bn. • Research shows that ten days after starting a medicine, almost a third of patients are non-adherent, creating wastage. • 13 trusts will be the first to receive a share of £78m to support electronic prescribing in hospitals to improve patient safety. • NHS England is developing core principles that set out how NHS pharmacy and medicines optimisation can best be integrated into Sustainability and Transformation Partnerships (STPs) and ICSs, with seven ICSs each awarded funding of £150,000 as pilots.	• The Group is focussed on development in the increasingly important medicines management area. It is working on technology to improve the end-to-end process of medicines management, including medicine optimisation and improved medication adherence as well as analytics to drive large-scale improvements in future. • ProScript Connect for community pharmacies enables better management of the dispensing process, including head office reporting for group customers to identify improvements through data. • The Group's Electronic Prescribing and Medicines Administration (ePMA) solution offers end-to-end prescribing and drug delivery in acute and mental health hospitals. • The broadening role of community pharmacy in delivering healthcare services offers the opportunity to develop new products to support this market, such as in response to the Patient Group Directions (PGD) initiative.
Digitally enabled patient care **£29bn** is spent in the UK in the private self-pay market	• The NHS Long Term Plan sets out that over the next five years, every patient will have straightforward digital access to NHS services, including online digital GP consultations, to help patients and their carers manage their health. • There is a drive in the Long Term Plan to give patients control over their medical record, whilst protecting patients' privacy. • Not all healthcare is provided through the NHS. Annual expenditure in the UK private self-pay market for healthcare services such as physiotherapy is £29bn, representing a significant and growing proportion of the total UK healthcare expenditure of £192bn.	• In this increasingly important market, EMIS Group has a trusted 15-year history as the leading provider of digital healthcare services through the Patient Access app. Recently released services include video consultations and an online triage service, both of which are developments supported by the NHS Long Term Plan. • Building on strong foundations, the Group's Patient business is focussed on the next stage of developing a patient-centric, connected healthcare service. Using Patient Access, the UK public will soon be able to search for a healthcare professional such as a physiotherapist or pharmacist through Patient's marketplace. Patient Access acts as the gateway to guide the user safely to the right care they need, when and where they need it. • As well as supporting the vision of the NHS Long Term Plan, this provides Patient with an opportunity to enter new markets over time, signposting citizens to services in the addressable self-pay market, as part of EMIS Group's growing enterprise business.

High-quality healthcare technology that supports clinicians

	ACHIEVEMENTS	STRATEGY
1. Highest clinical content and safety standards EMIS Group is absolutely committed to the highest clinical standards. In 2018 it developed its proactive approach to deliver continuous improvement in patient safety.	• Tracking clinical safety through detailed weekly key performance indicators reviewed by the Chief Medical Officer. • Closely embedding the clinical safety team into support processes, including assessing clinical safety impact and quality reviews on support tickets raised. • Ensuring any potential clinical safety issue is dealt with immediately through customer communications and if required priority work from our software engineers. • EMIS Care delivered diabetic eye screening services in line with NHS commissioning contracts, to the highest clinical and safety standards. • EMIS Care has successfully trained five experienced graders as slit lamp biomicroscopy examiners, reducing clinical risk to patients and improving the quality of service offered. • The Group is committed to providing the highest standard of content on Patient.info: written and peer reviewed by the clinical content team, following The Information Standard guidelines.	• The Group's technology development focus is governed by the overarching principle that it must both improve patient outcomes and deliver efficient, easy to use technology for our customers. • Our clinical team will advise and guide on technology development, bringing a broad range of experience from a range of clinical settings. • EMIS Group will continue to grow and develop the clinical safety team to maintain the highest clinical standards for the Group, including creating, embedding and governing the safety process for software delivery. • EMIS Specialist is developing a new grading matrix within the software to guard against unsafe patient outcomes, including improved functionality for greater accuracy in recording diabetic eye screening images on patient records.
2. Customer satisfaction EMIS Group's four key values (joined up, caring, accountable and innovative) ensure that customer satisfaction is always front of mind.	• Resolution of the service level reporting issues with the Group's largest customer, NHSD. • Completion of legacy projects in Community and Acute sectors. • Growing even closer to NHS customers by restructuring teams into regions, to better understand LHCPs' locality needs and closely meet regional requirements. • Patient Access 2.0 is rated as the number one healthcare app on the App Store, with a 4.8/5 star rating. • Delivery of software enhancements and fixes to primary care customers within the planned maintenance release schedule. • Growth of the patient-facing support team to better help users of Patient Access, with an improved average response time.	• Investment in and roll-out of the Group's new service management system, ServiceNow, which will drive up customer service standards and bring increased operational efficiency. • ServiceNow means end-users across the primary, community, acute, community pharmacy, Patient and Egton customer bases can access everything they need for support and training in one place. • With customer needs in mind, EMIS-X will be deployed on a modular basis, adding new functionality into existing software systems, ensuring a smooth upgrade process for the end-user, requiring no system downtime and minimal training. • Restructure of the customer service teams to share skills, knowledge and processes to resolve more issues at the first point of contact and continue to meet and exceed key service level agreement targets such as call answer time.

	ACHIEVEMENTS	STRATEGY
3. Medium-term growth An attractive balance of NHS and B2B sector opportunities will drive medium-term growth.	• Launch of Patient Access 2.0 as a foundation to build new marketplace services, with a sustained increase in people using the new app through the second half of 2018. • Contract wins in Acute and Community, and holding strong market shares in Primary and Community Pharmacy. • Market share gains in Primary, Community Care, Acute A&E and Hospital Pharmacy markets. • Continued roll-out of ProScript Connect into the community pharmacy estate.	• The Group will focus on building sustainable sales momentum to increase growth. • Growth will be focussed in two areas: within the areas of the Group that sell products and services directly to NHS customers and also the parts of the Group that deliver healthcare B2B products and services. • Plans for increased investment in technology will not impact the Group's progressive dividend policy or require significant leverage. • LHCPs and national funding sources such as those for GDEs and hospital medicines management will drive growth in the industry.
4. Connected healthcare The NHS-oriented areas of EMIS Group are helping customers deliver integrated care enabled by new technology.	• 37 of the Group's community customers enable data sharing between community organisations and general practices in their localities to help them deliver connected healthcare. • The Group continued to work on improving its own interoperability capabilities, as well as working closely with national standards and projects for interoperability, including SNOMED CT coding compatibility and the Fast Healthcare Interoperability Resource. • The Group moved forward with NHSD's GP Connect programme, with a pilot project in Leeds securely sharing GP records with the oncology ward at St James's Hospital. • Different business areas across the Group came together to deliver new products to the market, for example Egton, EMIS Health and Patient collaborated to develop and release Online Triage, with 74 practices already using this brand new service.	• The Group's current and future product portfolio aligns with NHS England's strategy, NHSD's roadmap and the requirements and ambitions of GP IT Futures. • In the mid-term, EMIS-X will be the UK's first integrated clinical platform serving all of the Group's major healthcare markets. • EMIS Group's technology strategy enables the vision of integrated care to become a reality, creating a joined-up NHS across all settings. • Through Patient Platform the Group will offer a patient-centric, connected healthcare service to the general public. • EMIS Group is uniquely positioned to be able to join up medicines management, from prescribing to dispensing to wholesale, connecting and improving this vital aspect of healthcare.

	ACHIEVEMENTS	STRATEGY
5. Product innovation EMIS Group has a long history of being first to market with new technologies to solve problems in the industry; this is set to continue at pace.	• Announcement of EMIS-X, with development underway on the foundation modules and positive feedback from customers following initial viewings. • Selection of Amazon Web Services (AWS) as the high-tech platform upon which to build EMIS-X. • Release of Patient Access 2.0, with improvements to existing patient-facing services such as appointment booking and repeat prescription ordering, as well as launch of new capabilities such as video consultations. • Acquisition of Dovetail Digital Limited, to begin plans to leverage blockchain technology in the healthcare industry.	• Increased investment in technology over the next two to three years. • Development and delivery of EMIS-X to build additional functionality into existing products. • Further innovation in patient-facing platforms with a patient marketplace, developing Patient Access to offer even more patient-centric services. • Clear development roadmap aligned with NHS England priorities. • Development of new technology to improve the process of medicines management for the acute and community pharmacy markets, as well as analytics to drive large-scale improvements in future.
6. People strategy The power of the team is the power of EMIS Group: a combination of people with knowledge and expertise grown within the business together with incoming new talent and skills.	• The Group focussed on attracting and retaining key talent in 2018, particularly in the clinical, product, development and commercial areas of the business. • EMIS Group published its Gender Pay Gap (GPG) information and launched three initiatives during 2018 as part of a commitment to improvements: a women's network, an improved maternity offer and a new flexible working policy. • The Group enhanced its employee benefits, including an increase to its Company-funded life assurance cover from two to four times employees' annual salary. • A focus on improved internal communications, including use of Workplace, the intranet and live video Q&A sessions with the Chief Executive Officer and other senior management.	• EMIS Group plans to develop its people policy even further in five key areas: inspirational leadership; talent and development; reward and recognition; operational excellence; and culture and communication. • One of the key areas of focus across the Group is giving back to the community through the Caring EMIS programme, supporting employees in charity fundraising. • The Group continues to focus on development of employees at all levels including the leadership team, creating an opportunity for both personal development and career opportunities within the Group. • Working on the GPG, the Group will introduce a mentoring programme supporting returners back to the workplace after periods of leave. • Standardisation of a flexible working policy across the Group to help those balancing family and work life.

“An attractive balance of opportunity in our core NHS market and the developing enterprise B2B market.”

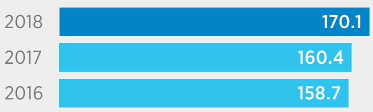
Andy Thorburn
Chief Executive Officer

Measuring our performance

The Group's KPIs monitor progress towards the achievement of its objectives.

Total revenue

£170.1m +6%



DESCRIPTION

Total revenue is a reflection of the level of business that customers choose to place with the Group. It is important as a measure of the attractiveness of the Group's products to the market.

Financial review
Pages 34–37

STRATEGIC FOCUS

Total revenue increased by 6% in the year, across all key segments. This is a sign of confidence of customers in the Group's products and is consistent with the strategic target set out at the Capital Markets Day in November 2018 of increasing revenue at a mid-to-high single digit growth rate.

LINK TO STRATEGIC PRIORITIES

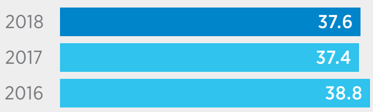
1 2 3 4 5 6

LINK TO REMUNERATION

R

Adjusted operating profit[1]

£37.6m +1%



DESCRIPTION

This is the key measure of the Group's underlying financial profitability, as defined in the APM section on page 20, excluding exceptional items and expensing development costs as incurred.

STRATEGIC FOCUS

The 1% increase in the year was reflective of a combination of stronger revenue growth accompanied by investment in the business to deliver on past contractual commitments and for future growth. At the Capital Markets Day the Group set out a target to increase operating margins towards 30%, which implies a faster rate of growth in profit than in revenue, to be delivered by operational leverage and greater efficiency in the Group's systems.

LINK TO STRATEGIC PRIORITIES

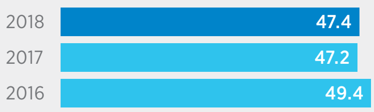
1 2 3 4 5 6

LINK TO REMUNERATION

R

Adjusted EPS[1]

47.4p +0.4%



DESCRIPTION

Adjusted EPS represents the best measure of underlying profit attributable to shareholders, as set out in the APM section on page 20.

STRATEGIC FOCUS

The increase in adjusted EPS in the year was in line with the growth in adjusted operating profit. As a key measure of shareholder return and driver of executive long-term incentive plans, EMIS Group's strategy is to focus on driving improvements in this metric in future through delivering sustainable business growth.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

LINK TO REMUNERATION

R

KEY TO LINKS

STRATEGIC PRIORITIES

1 Highest clinical content and standards
2 Customer satisfaction
3 Medium-term growth
4 Connected healthcare
5 Product innovation
6 Focus on people development

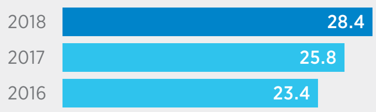
REMUNERATION

R Link to remuneration

1 Adjusted operating profit and adjusted EPS are alternative performance measures. See page 20 for further details.

Total dividend for the year

28.4p +10%



DESCRIPTION
This measure records the amount of dividend paid out per share relating to the financial year.

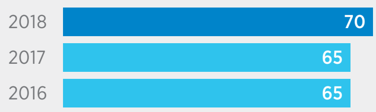
STRATEGIC FOCUS
The Board's recommendation of a 10% increase in dividend is a reflection of the Board's commitment through the Capital Allocation Policy (see page 72) to increase direct returns to shareholders over time in line with underlying earnings growth.

LINK TO STRATEGIC PRIORITIES
1 2 3 4 5 6

LINK TO REMUNERATION
R

Employee engagement

70% +8%



DESCRIPTION
An engagement score is the best focal point to understand overall employee engagement and represents the employee population's average response to questions on engagement, belief, loyalty and satisfaction.

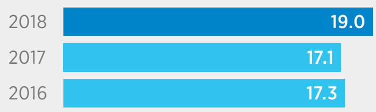
STRATEGIC FOCUS
Employee engagement increased over the year. As set out in the People section on pages 38 to 41, the Group is highly committed to a series of initiatives designed to deliver further improvements in this area, to drive both personal and corporate performance.

LINK TO STRATEGIC PRIORITIES
1 2 3 4 5 6

LINK TO REMUNERATION
R

R&D investment

£19.0m +11%



DESCRIPTION
This measures the level of R&D investment in the Group's software products and is a key measure of the Group's commitment to ensuring that it not only maintains its existing portfolio but is also investing in developing the products of the future.

STRATEGIC FOCUS
The increase in investment in the year is consistent with the Group's strategic focus on enhancing existing products such as EMIS Web, while also preparing new products for the evolving healthcare market, including Patient and, as announced at the Capital Markets Day, the new EMIS-X clinical platform.

LINK TO STRATEGIC PRIORITIES
1 2 3 4 5 6

LINK TO REMUNERATION
R

KEY TO LINKS

STRATEGIC PRIORITIES
1 Highest clinical content and standards
2 Customer satisfaction
3 Medium-term growth
4 Connected healthcare
5 Product innovation
6 Focus on people development

REMUNERATION
R Link to remuneration

Alternative performance measures (APMs)

This annual report and accounts contains certain financial measures (APMs) that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the company.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

Recurring revenue

Recurring revenue is the revenue that annually repeats either under contractual arrangement or by predictable customer habit. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the company. It is a measure that is well understood by the Group's investor and analyst community and is used for internal performance reporting.

	2018 £'000	2017 £'000
Reported revenue	**170,070**	160,354
Non-recurring revenue	**(29,389)**	(26,817)
Recurring revenue	**140,681**	133,537

Adjusted operating profit, adjusted operating margin, and adjusted earnings per share

Adjusted operating profit is operating profit excluding exceptional items, the effect of capitalisation and amortisation of development costs and the amortisation of acquired intangible assets. The same adjustments are also made in determining the adjusted operating margin of the Group and its segments and also in determining adjusted earnings per share (EPS). The EPS calculation further adjusts for the related tax and non-controlling interest impacts of the operating profit adjustments.

The Board considers this adjusted measure of operating profit to provide the best metric of assessing underlying performance, as:

- it excludes exceptional items (items are only classified as exceptional due to their nature or size);
- by expensing capitalised development costs (and also not amortising these costs) it reflects the underlying in-year cash cost of development of software for external sale, as development is considered to be a core ongoing operating function of the business; and
- it excludes the amortisation of acquired intangibles arising from business combinations which varies year on year dependent on the timing and size of any acquisitions. This is consistent with the presentation of the amortisation of the Group's own software intangibles.

These metrics are used internally for reporting business unit performance and in determining management and executive remuneration. They are commonly used by other software companies and are also well understood by the Group's investor and analyst community.

	2018 £'000	2017 £'000
Reported operating profit	**28,740**	10,640
Exceptional items	**(1,657)**	16,988
Development costs capitalised	**(5,782)**	(4,426)
Amortisation of computer software developed for external sale	**9,447**	7,487
Amortisation of intangible assets arising on business combinations	**6,860**	6,717
Adjusted operating profit	**37,608**	37,406

The exceptional item in 2018 relates to a credit for service level reporting charges. The exceptional items in 2017 relate to £5,800,000 of reorganisation costs and £11,188,000 of service level reporting charges.

A reconciliation of adjusted earnings used in the adjusted EPS calculations is shown below:

	2018 £'000	2017 £'000
Profit attributable to equity holders	**22,710**	8,053
Exceptional items	**(1,657)**	16,988
Development costs capitalised	**(5,782)**	(4,426)
Amortisation of computer software developed for external sale	**9,447**	7,487
Amortisation of intangible assets arising on business combinations	**6,860**	6,717
Tax and non-controlling interest effect of above items	**(1,737)**	(5,129)
Adjusted profit attributable to equity holders	**29,841**	29,690

Adjusted cash generated from operations

The Group's adjusted cash generated from operations adjusts for capitalised development cost expenditure and the cash costs of exceptional items, consistent with the adjusted operating profit metric used by the Group. This provides a meaningful metric for the underlying cash the Group generates having accounted for the cash cost of all development expenditure and adding back the cash cost of non-recurring exceptional items. The comparative for 2017 has been restated on this basis as the cash flow metric reported in previous years did not adjust for the cash cost of exceptional items.

	2018 £'000	2017 £'000
Reported cash generated from operations	**49,873**	48,834
Development costs capitalised	**(5,782)**	(4,426)
Cash cost of exceptional items	**10,378**	5,244
Adjusted cash generated from operations	**54,469**	49,652

"Our high level of recurring revenue and the strength of the Group's customer relationships continue to provide an excellent foundation for the business."

Peter Southby
Chief Financial Officer

Management of risk

Risk management is a priority for EMIS Group to sustain the success of the business in years to come. Each area of the business identifies, evaluates and manages risk according to the Board policy.

THE RISK MANAGEMENT FRAMEWORK

The Board is responsible for the proactive risk management policy, to ensure that EMIS Group has a structured and appropriate approach to risk. Each area of the business has a clear focus to identify, evaluate and manage risk in line with Group strategic priorities and risk appetite.

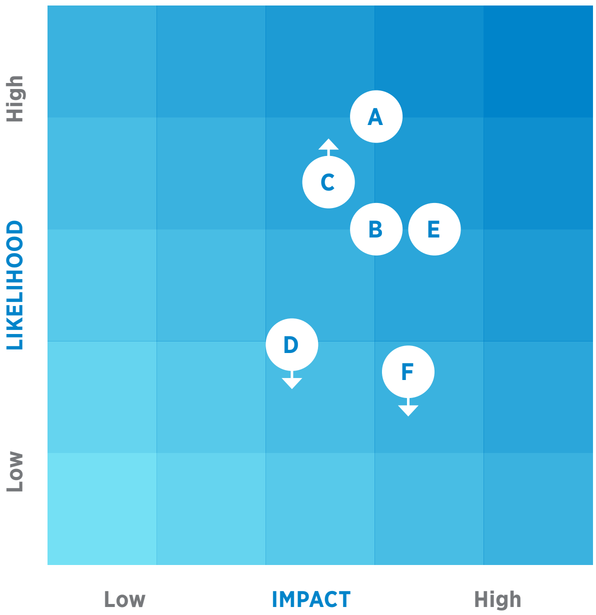
The risk management process is overseen by the risk management committee (RMC). The RMC was established in 2017 with formal terms of reference and comprises the Chief Financial Officer (chair), Chief Executive Officer, Director of Legal and Administrative Services, Company Secretary and Head of Group Internal Audit. The committee met monthly throughout 2018; minutes and action plans are formally recorded and reported to the audit committee for review.

Members of the Group Executive Team (GXT) and other key operational management regularly review their risk registers in detail at RMC meetings.

The GXT reviews a consolidated Group risk register at least twice a year before it is submitted to the main Board for consideration. The audit committee reviews and challenges the principal risks and mitigation controls identified by management. Group internal audit provides independent, objective assurance on key risks through a programme of audit reviews.

Risks are evaluated using consistent measurements of likelihood, financial and reputational impact, both before and after mitigating controls are taken into account. Risk registers and risk scores are independently verified by the Head of Group Internal Audit. A named risk owner is responsible for ensuring that adequate mitigating controls are in place and operating effectively.

Principal risks heat map



The risk heat map above provides a graphical representation of the principal risks and uncertainties. It shows the assessment of the relative impact and likelihood of each risk, along with an indication of the year on year movement of each risk described in detail on pages 24 to 27.

- **A** Healthcare structure and procurement changes
- **B** Product integration and interoperability
- **C** Software (product) development
- **D** Recruitment and retention
- **E** Information governance and cyber security
- **F** Clinical safety

Corporate governance
Pages 44–50

Audit committee
Pages 51-55

Impact of the UK leaving the European Union (Brexit)

As reported in previous years, the Board continues to believe that Brexit will have minimal direct effect on the Group as it is not a significant exporter or importer of goods or services. There are potential indirect effects including exchange rate volatility affecting the value of sterling and increased pressure on NHS budgets which could have a negative impact on the Group's prospects, but the scale and timing of these is far from certain. The Board has considered this scenario in its stress testing of the modelling which supports its viability assessment (see viability statement on page 75). While the Board continues to monitor the progress of the negotiations of the terms under which the UK will leave the EU, and the market implications of those terms, it does not believe that Brexit represents a principal risk for the Group at this time. However, it will continue to keep the situation under review given the ongoing lack of certainty in this area.

Risk appetite

The Board, with input from the GXT, has defined its risk appetite across a range of risk categories as outlined opposite, along with detailed statements to support these basic levels of risk appetite. Although there are areas where EMIS Group is prepared to take higher levels of risk, the risk management framework is designed to manage down to an acceptable level the risk of significant financial or reputational damage, with rewards being commensurate with the level of risk being taken within a reasonable timeframe. These statements provide management with guidance on how much and what types of risk the Board is prepared to accept when management is making business decisions.

The Board reviews and revises its risk appetite as its understanding of the level and nature of risk in the business develops or as its appetite for taking risk changes. Acceptable risk appetite levels were first determined in 2016 and were amended in 2017. No changes to risk appetite have been made in 2018.

Risk appetite parameters have been built into the Group's web-based risk management application. Any area where exposure is assessed as exceeding the Board's defined risk appetite is flagged and assigned to specific members of the GXT to determine what, if any, action is required. Such risks are monitored by the RMC and remedial actions are tracked.

Risk category	Risk appetite
Overall	**Low**
Strategic	Medium
Financial	Low
Compliance (legal, regulatory, health and safety, environmental)	Low
Operational:	
– Commercial	Medium
– Sales	Medium
– Marketing (including product strategy)	Medium
– People	Low
– Property	Low
Technical:	
– Innovation	Medium
– Development	Low
– Release (testing/quality assurance)	Low
– Implementation	Low
– Internal IT systems	Low
Clinical:	
– Safety	Low
– Delivery	Low
Data management:	
– Information governance (in relation to clinical safety)	Low
– Information security (in relation to data records and data security)	Low

Each key risk is assigned to an appropriate individual or discrete operating group and all mitigation and action plans are recorded and monitored.

The principal risks and uncertainties identified by management, and how they are being managed, are set out on pages 24 to 27. These risks are not intended to be an extensive analysis of all risks that may arise in the ordinary course of business or otherwise.

The principal financial risks are separately disclosed in note 3 to the financial statements on pages 91 and 92.

Principal risks and uncertainties continued

	DESCRIPTION OF RISK	WHY IS IT A RISK?
A **Healthcare structure and procurement changes**	The commercial success of the Group is dependent on the NHS's strategic direction to use IT to reduce costs and improve efficiency. How the NHS is organised and how it procures goods and services, including outsourcing services, could affect the Group's ability to sell to the NHS. The current GPSoC framework in England is due to be replaced by the GP IT Futures framework by the beginning of 2020. There is a risk that the Group may not be included on this important framework.	There is a risk that the Group's products and services are not in line with the NHS's strategy, or that this will change with successive governments. Responding to changes in the marketplace is vital, NHS plans continue to evolve and EMIS Group must stay in alignment as new strategies and structures emerge, such as the NHS Long Term Plan, the NHS Forward View, GP federations, STPs and ICSs. The GPSoC framework currently represents the largest single source of revenue for the Group.
B **Product integration and interoperability**	The Group's strategy is to provide innovative IT healthcare systems across a range of healthcare sectors, which are integrated with each other and interoperable with other non-Group systems. This efficiently aligns technology and workflows and enables realisation of the best clinical safety and financial outcomes. In order to achieve its objectives, the Group has acquired several businesses across a range of healthcare sectors in recent years. There is a risk that these businesses do not function effectively as a group, impacting on the success of product integration.	Failure to achieve integration between the Group's own systems or interoperability with third party systems could have a significant impact on the Group's ability to meet the government's healthcare technology requirements and to sell its products and services to the NHS and others in the longer term. This is a reputational risk as EMIS Group is the leading connected healthcare IT supplier to the NHS.
C **Software (product) development**	The Group's core software products are critical to the efficient and effective operation of a wide range of healthcare organisations and they are designed and developed to meet the exacting standards of key customers and the needs of patients and carers. Developing excellent, robust and reliable software systems is essential to the ongoing success of the business. The Group's products may be disrupted by competitors if they develop more innovative technology.	The technical or physical failure of the Group's systems, during development, implementation or everyday use, could lead to disruption or complete service denial of high profile public services. The failure to monitor and rectify software defects on a timely basis would result in reduced customer satisfaction and contractual penalties.

HOW WE MITIGATE THE RISK

OPPORTUNITY FOR EMIS GROUP

EMIS Group continues to align its strategies with planned and published government policy on healthcare and technology.

Specific actions include:

- close engagement with the NHS at strategic and tactical levels to ensure the Group's products are designed to meet the essential requirements of the NHS's major frameworks;
- ensuring the Group is perceived as a supplier of connected IT healthcare solutions in its key markets;
- proactive response to published NHS plans and proposed and actual changes in healthcare structures;
- regular monitoring and analysis of the Group's markets and competitors;
- development of clear, integrated market and product strategies, with a strengthened focus on user requirements;
- changes to internal structures aligned to evolving NHS procurement structures; and
- accelerated development plans for the next generation platform software across the Group.

The opportunity for EMIS Group is to align its strategy to policy, so that its products and services deliver the solutions that the market is seeking to procure. This positions the Group as a trusted high-tech supplier delivering at every level from end-user experience through to government strategy.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

The Group has taken a range of actions designed to bring together its business units and products, and create synergies across the Group:

- appointment of a Chief Technology Officer responsible for technology vision, strategy and execution across the Group;
- development of the vision for EMIS-X, a clinical platform that will provide extensive integration and interoperability across all of the Group's products, and those of third parties;
- Board-level responsibility for product and acquisition integration with a clear strategic plan and regular monitoring;
- continued development of best practice standards in software development, customer support, project implementation, clinical safety governance and product integration;
- all integrated product implementations include a clinical safety review; and
- extending connectivity between the Group and third party solutions providers including an open Application Programme Interface (API) strategy.

EMIS Group has significant strengths in interoperability: a major market share in all key NHS markets, a reputation as an interoperable supplier already working in tandem with many existing partners, as well as leading technology innovation with EMIS-X. The opportunity is to be the first to deliver true NHS integration.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

To ensure the secure and effective development and implementation of both new and existing products, the Group has in place a range of mitigating controls, including:

- aligning development teams to specific business and product areas with cross-functional teams ensuring that direct feedback from users and customers is taken into account throughout the development process;
- a central team responsible for the architecture of the Group's software, ensuring that its platform continues to evolve as new technologies emerge;
- acquisition of new development talent and technologies, including blockchain;
- a system to capture, classify and report software defects and enhancements requested by users and customers, to ensure a cycle of continuous improvements;
- a staged new system implementation process that minimises disruption and tests system operation on pilot systems before wider implementation;
- ring-fencing of development teams and their systems to preserve sensitive data security and integrity; and
- increased investment in the quality and quantity of development teams.

The opportunity is to build on the Group's strong 30-year history as a market innovator and instigator of positive change, with new software development that is both technologically leading edge and in alignment with customer requirements.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

KEY TO STRATEGIC PRIORITIES LINKS

1 Highest clinical content and safety standards
2 Customer satisfaction
3 Medium-term growth
4 Connected healthcare
5 Product innovation
6 People strategy

Principal risks and uncertainties continued

	DESCRIPTION OF RISK	WHY IS IT A RISK?
D **Recruitment and retention**	The Group is reliant on the skills and knowledge of its people in a wide range of areas, but especially in software development, clinical safety and information technology systems. Following the appointment of a new Chief Executive Officer in 2017, significant business reorganisation and personnel changes have taken place. This can create short-term disruption and uncertainty.	Failure to recruit and retain an appropriate number of suitably qualified people in critical areas could lead to a deterioration in the quality of products and services. This could lead to failure to meet customers' needs, losing their business and the Group failing to deliver expected financial returns to shareholders.
E **Information governance and cyber security**	The Group is responsible for a significant amount of confidential and sensitive personal data, including hosting the care records of 57% of the UK primary care market. Its systems enable the secure, reliable and accurate processing of this information. The risk of cyber-attacks targeting the healthcare sector remains at an elevated level. Such attacks are common and in 2018 they affected a wide range of organisations and systems.	Hosting patient care records carries significant risk associated with information security, data protection and system reliability, including loss, theft and corruption of data. EMIS Group's trusted reputation rests on its integrity and the quality of stewardship it applies to such sensitive and valuable data. In addition, the EU General Data Protection Regulation (GDPR) brought increased data protection and privacy regulation into effect in May 2018. Failure to comply could lead to significant fines and reputational damage.
F **Clinical safety**	As a provider of critical IT systems to organisations that provide healthcare to patients, and as a direct provider of healthcare itself, the Group is exposed to a range of clinical risks. These include the risk associated with the use of algorithms in the Group's products, which clinicians use to direct and support day-to-day patient care. For pharmacy software products, similar risks exist around incorrect dosages and labelling of products dispensed. The Group is exposed to direct clinical risk of causing harm to patients where it is the provider of clinical services, most notably in the ophthalmic imaging services and DESPs operated by EMIS Care.	There is a risk of clinical harm to patients should the software used by healthcare professionals, such as EMIS Group hosted IT systems, fail to provide accurate, reliable and timely personal information. For example, this could include alerts regarding a patient's known allergies, existing prescribed medication or other relevant personal information. These risks may be amplified where Group systems interoperate with third party applications.

HOW WE MITIGATE THE RISK

Key actions implemented or commenced during the year include:

- improving empowerment and accountability across the organisation through restructuring;
- significant investment in increasing the skill level of the manager population through internal training, performance management and 360-degree feedback;
- improved internal communication with regular live Q&A webcasts from the Chief Executive Officer, regular all-staff communications, monthly calls and quarterly meetings with the leadership team;
- providing an environment for improved communication, engagement and development, including a Group-wide intranet, Workplace and Skype for Business;
- succession plans in place for key roles, which are regularly reviewed;
- operating a regularly reviewed pay and benefits framework to ensure greater consistency across the Group and appropriate external benchmarking;
- Group-wide employee satisfaction surveys including suggestions for improvement; and
- investment in modern, inspirational and motivational working environments for employees.

OPPORTUNITY FOR EMIS GROUP

The Group's strategy to become an employer of choice will lead to improved recruitment and retention of talent. Attracting and retaining highly skilled, motivated employees will lead to better business performance, enhancing the Group's good reputation as well as financial return.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

In 2018 the Group appointed a dedicated Chief Information Security Officer who has undertaken extensive reviews of the Group's systems and policies. The Group continues to invest heavily in strong physical and logical controls over hardware and software systems, which is set to increase in the coming year.

Mitigating controls and actions include:

- ISO9001 and 27001 and Cyber Essentials certification in corporate and hosted environments;
- regular penetration and vulnerability testing of the IT estate;
- increased focus and education on security awareness, including phishing and social engineering;
- review and reinforcement of data access policies;
- significant increase in physical security measures across data centre locations;
- dedicated programme of activity to improve information security;
- enhancing the capability for cyber security breach response, recovery and remediation; and
- investment in business continuity and resilience through ISO22301 certification for data centres.

With a clear, dedicated focus on information governance and cyber security, the Group is able to operate in the healthcare market with confidence in its processes, products and services, inspiring, in turn, confidence in customers and end-users.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

Most clinical risks are allied to other principal risks, for example, software development, recruitment and information governance, as failures in any of these could lead to clinical harm to patients. Actions taken to manage risks in these areas are noted under the relevant sections. Mitigating actions specifically pertaining to clinical risk management are noted here:

- Chief Medical Officer and a network of clinical safety officers in place with responsibility for clinical safety across the Group;
- policies and procedures designed to meet the regulatory requirements of NHSD's information standards SCCI0129 or SCCI0160;
- policies and processes in place to meet regulatory standards for "software as a medical device" pertaining to embedded algorithms and decision support;
- a procedure for accredited clinicians to identify and mitigate potential clinical risks in new software development, releases and updates. Clinical sign-off is required for all releases;
- qualified technicians and expert clinical leadership at all DESPs; and
- oversight by external regulators.

EMIS Group's priority is to deliver the highest standards of clinical safety. This is an unswerving focus that runs through the Group's culture, creating an opportunity to continue to build the trust of the healthcare profession, leading to increased software and service sales and customer retention.

LINK TO STRATEGIC PRIORITIES

1 2 3 4 5 6

KEY TO STRATEGIC PRIORITIES LINKS

1 Highest clinical content and safety standards
2 Customer satisfaction
3 Medium-term growth
4 Connected healthcare
5 Product innovation
6 People strategy

Primary, Community & Acute Care

Better healthcare for vulnerable patients

PRIMARY

EMIS Health and homeless health charity Pathway have developed the first dedicated digital homeless health screening template, available to users of EMIS Web.

The template enables doctors to create and maintain a detailed picture of a homeless person's health, capturing vital information.

> **"The template will enable doctors to see patients' health priorities, provide more effective treatment and help relieve pressure on the NHS."**
>
> Samantha Dorney-Smith, nursing fellow, Pathway

Read more online at **www.emisgroupplc.com**

PRIMARY

EMIS Health increased its market-leading share during 2018 by 1% to 57% (2017: 56%).

In February 2019 the Group announced that EMIS Health had been awarded a place on the NHS National Services Scotland (NSS) framework, enabling it to continue to supply GP IT systems in Scotland.

EMIS Health is focussed on improving customer service and has brought the Egton and Primary, Community & Acute Care businesses together. This will realise operational efficiencies and consolidate our customer approach. EMIS Health's new regional teams will match the NHS's regional approach while better serving the emerging LHCPs.

The Group also invested in a new service management solution, ServiceNow, which will launch in 2019 enabling the Group to bring together its Egton and EMIS Health service desks. As well as leveraging operational efficiencies, this will deliver an improved customer service experience, with one online portal for all support and training requirements.

The Group continues to deliver interoperability and integration to the primary care market, in alignment with the strategic direction of the NHS, as set out in the NHS Long Term Plan. Through the long-standing, successful EMIS Health partner programme, GP end-users can now choose from 149 partner products from 104 different partner companies, all of which seamlessly interoperate with EMIS Web. We continue to work with NHSD on national interoperability projects such as GP Connect, which is successfully making GP data available to hospital wards in Leeds as part of a pilot programme.

As previously announced, the Group's GP customer base in Wales is expected to reduce during 2019 and 2020 as practices transition to other providers following EMIS Health's planned withdrawal from this market.

Egton, the Group's ICT infrastructure, engineering and non-clinical software division, performed well during the period, expanding its range of software, hardware and services in alignment with the NHS Long Term Plan. Working closely with Patient and Primary, Egton released Online Triage during 2018, with 74 practices already signed up to the new service and a strong sales pipeline in place for 2019. Egton's digitisation offer, which supports the NHS's paperless agenda, has also performed strongly during the period.

WE DELIVER

Patient Access	GP systems	GP practice check-ins	Community systems
7.2m	**163m**	**25%**	**30.6m**
registered users	appointments booked annually	market share	appointments booked annually

COMMUNITY

EMIS Health continued to grow in the community segment in 2018 and increased its market share to 20% (2017: 17%), maintaining its number two market position.

In 2018, EMIS Health won 90 new deals in the community market, ranging from new software installations in clinical services to community training packages. All 18 outstanding legacy contracts in this market were completed in 2018.

EMIS Health retained 100% of its customers in community during 2018. All 37 community customers are using its software to securely exchange data with other local services, helping to deliver the NHS's connected care agenda.

The EMIS Mobile roll-out continued during 2018. The app has been well received by customers and is now available on the Apple, Android and Windows platforms. The division also performed strongly in the hospice market, providing clinical systems to eleven additional hospices in 2018.

The focus for 2019 will be working closely with the newly formed ICS areas to support the initiatives of the NHS Long Term Plan. EMIS Health will also continue development of the digital child health functionality to support the NHS Healthy Children Programme.

"All of EMIS Health's community customers use its software to securely exchange data with other local services, helping to deliver the NHS's connected care agenda."

Reducing mental health waiting times

COMMUNITY

NHS Greater Glasgow and Clyde has cut the waiting time for a first appointment from one year to an average of just six weeks with EMIS Web. Managers can plan capacity using the system's electronic appointment book to instantly search and fill spare slots.

"The same number of clinicians now offer 1,000 more appointments a month because of data analysis using EMIS Health systems."

Karen Lamb, service manager for Clinical Informatics, NHS Greater Glasgow and Clyde

Read more online at **www.emisgroupplc.com**

A&E systems	Hospital pharmacy systems	Community pharmacy systems	Diabetic eye screening
14.2m	**12m**	**454m**	**500,000**
patients annually	patients annually	items dispensed annually	patients screened annually

Primary, Community & Acute Care continued

Better, safer and speedier A&E care

ACUTE

Since moving to Symphony, EMIS Health's urgent and emergency care system, the emergency department at South Tees Hospitals NHS Foundation Trust has met important targets for waiting times, sepsis screening and safeguarding vulnerable patients. With over 300 patients seen every day, the results have been significant.

"We're meeting the four-hour A&E waiting target for 95% of patients, despite increasing pressures."

Andrew Adair, chief clinical information officer and emergency medicine consultant

Read more online at **www.emisgroupplc.com**

ACUTE

EMIS Health performed well in the acute sector in the period, moving to joint market leadership in A&E and maintaining the number two market position in hospital pharmacy, with increased market shares to 22% (2017: 19%) and 36% (2017: 29%) respectively.

Performance in the acute sector was supported by the sale of legacy software to the Northern Territory Government of Australia, as well as two new contract wins for deploying Symphony into A&E and one to deploy EMIS Health software into hospital pharmacy.

EMIS Health deployed 232 go-lives in acute during 2018, ranging from new installations to software upgrades to existing systems, providing better functionality to customers. EMIS Health also re-engaged in the national roll-out of Symphony in Wales.

EMIS Health continues to work towards delivering connected care for its acute customers, enabling end-users to safely and securely share vital patient data during 2018. Specific projects in this area include sharing GP data with A&E and making data from the Child Protection Information Service (CP-IS) available in A&E. This provides the technology solution to help acute customers move towards the paperless targets set out by the GDE programme, while driving for interoperability as demanded by the NHS Long Term Plan.

"EMIS Health continues to work towards delivering connected care for its acute customers, enabling end-users to safely and securely share vital patient data."

EMIS Health Community Pharmacy

COMMUNITY

EMIS Health Community Pharmacy (EHCP) continued to perform well in 2018, maintaining its market share at 37% (2017: 37%) and its position as joint market leader.

The roll-out of Community Pharmacy's core service, ProScript Connect, is almost complete with over 95% of the direct customer estate upgraded from ProScript. Upgrades were completed with minimal customer disruption and maintenance of service levels. EHCP continued to bring in new customers to ProScript Connect and grew its business, adding 54 new group customer branches and approximately £1.4m in contracted value. EHCP extended its estate connectivity resilience with 274 new customer activations for Constant Connect, its 3G/4G failover backup connectivity service, amounting to approximately £0.5m in contracted value.

EHCP also delivered significant improvements to customer service in the period, with a 33% reduction in the average call wait time. The division saw a 16% reduction in support calls per customer per month during 2018 and a 19% improvement in its overall customer service satisfaction score (based on 200 survey respondents).

During 2018, EHCP developed the Falsified Medicines Directive (FMD) module in ProScript Connect, enabling its customers to comply with the FMD legislation introduced in February 2019. It also developed a number of APIs to facilitate partner services in areas such as automation, electronic medicines administration and medicines delivery optimisation.

The focus for 2019 is the development of technology to allow pharmacies to deliver PGD services such as smoking cessation, influenza jabs and travel vaccinations. This will support the drive from the healthcare industry to provide more services in pharmacies to reduce pressure on GP practices. This local level service will link with the forthcoming Patient marketplace service, which will drive footfall into community pharmacy services.

Cutting admin time with ProScript Connect

COMMUNITY PHARMACY

Day Lewis Pharmacy in Hull has reduced the time spent on managing controlled drugs prescriptions by 75%. Four months ago, the pharmacy switched from paper files to pilot an electronic controlled drugs register integrated into EMIS Health's ProScript Connect.

> **"It has reduced discrepancies and errors, because we record information in real time. It has also reduced the volume of drugs going out of date."**
>
> Neil Mowbray, pharmacy manager

Read more online at
www.emisgroupplc.com

> "The roll out of Community Pharmacy's core service, ProScript Connect, is almost complete with over 95% of the direct customer estate upgraded from ProScript."

Specialist & Care

Better patient experience

SPECIALIST & CARE

EMIS Care's South West London Diabetic Eye Screening Programme prides itself on providing a first-class patient experience. Diabetic retinopathy eye screening is a key part of diabetes care: the condition can lead to sight loss if it is not detected early and treated.

"The service has been wonderful and everybody has been kind and friendly. I am impressed with the efficiency of receiving my results letter within one week of the screening."

Patient of the South West London Diabetic Eye Screening Programme

Read more online at **www.emisgroupplc.com**

SPECIALIST & CARE

Specialist & Care maintained its position as the leading software provider in English diabetic retinopathy screening with a 74% market share (2017: 76%).

The focus during 2018 for EMIS Specialist was to ensure that its software continues to support the highest level of clinical safety and standards. The division is working closely with the national NHS diabetic eye screening programme to implement longer screening intervals to free up capacity and allow more patients to be screened without significant need for additional resources. EMIS Specialist has developed a new grading matrix to guard against unsafe patient outcomes, including functionality to improve accuracy in recording diabetic eye screening images.

EMIS Care remains in the number one market position in outsourced diabetic eye screening. During the period EMIS Care successfully extended the Central Mersey and Ireland DESP contracts and won the contract for digital surveillance of optical coherence tomography (OCT) for Ireland.

"EMIS Specialist has developed a new grading matrix to guard against unsafe patient outcomes, to improve accuracy in recording diabetic eye screening images."

Patient

PATIENT

During 2018, the business focussed on designing, building and developing the Patient Platform in preparation for the launch of the connected healthcare marketplace in 2019.

Following the successful relaunch of patient.info in late 2017, Patient secured a media and sponsorship deal with Reckitt Benckiser, to advertise twelve of its highest profile consumer brands such as Nurofen and Lemsip across the Patient.info website and newsletters. Despite the challenges faced in 2018 due to changes in the Google algorithms, which impacted traffic levels, patient.info averaged ten million unique users per month during the period.

As previously reported, the Patient Access platform was rebuilt in 2018 to meet the increasing market expectations for technology and deliver improved user experience. Following NHS approvals, the Patient Access 2.0 app was successfully launched in the first half of 2018 with a more robust, user-friendly and fully native user experience enabling Patient to deliver new functionality such as video consultation and online triage.

Since launch:

- on average, 1.8 million unique users have generated 4.9 million transactions on Patient Access 2.0 each month;
- the number of unique users who booked appointments per month increased from 262,000 in June 2018 to 328,000 in December 2018; and
- the number of unique users who ordered repeat medications per month increased from 834,000 in June 2018 to 1,199,000 in December 2018. Patient Access 2.0 is now rated the top medical app with a 4.8 out of 5.0 star rating on the iOS App Store.

The second half of 2018 was focussed on building Patient Access for Professionals. This will include community pharmacy and allied health professional services such as physiotherapy, which will be launched in the second half of 2019.

Helping more patients in less time

PATIENT

GPs at Stratford Village Surgery are using Online Triage from Egton and Patient to drastically reduce admin. It has reduced the time that patients wait for an appointment from up to four weeks to just one day.

"Clinicians are getting through 30 online patient queries in the time it took to do 18 face-to-face consultations – making life easier for patients, clinicians and admin staff."

Dr Bhupinder Kohli, GP and medical director

Read more online at **www.emisgroupplc.com**

"The Patient Access 2.0 app was successfully launched in the first half of 2018 enabling Patient to deliver new functionality such as video consultation and online triage."

Progress and investment

"Group revenue increased by 6% to £170.1m."

Peter Southby
Chief Financial Officer

A year of progress for the Group with all key financial metrics moving ahead.

The results for the year ended 31 December 2018 reflect a year of progress for the Group, with all key financial metrics moving ahead, accompanied by investment in the business to deliver on past contractual commitments and future growth.

Adjusted operating profit for the year, as set out in the table below, was £37.6m (2017: £37.4m) with statutory operating profit, including an exceptional £1.7m credit for service level reporting charges, at £28.7m (2017: £10.6m). A reconciliation between the operating profit measures is given in the Group statement of comprehensive income.

Group revenue increased by 6% to £170.1m (2017: £160.4m), including revenue for the last two months of the year from the acquisition of Dovetail Lab in Primary, Community & Acute Care of £0.1m.

Segmental performance

In the Primary, Community & Acute Care business, revenue grew by 3% with adjusted operating profit 4% lower than the previous year. The segment's results reflect an improved sales performance balanced with additional costs incurred in operations and development responding to the challenge of meeting contractual commitments with NHSD. While some of these costs will reduce over time through further efficiency gains, the level of investment in technology will remain elevated for a period of time as EMIS-X is developed.

Performance in the Community Pharmacy division was again positive, with the roll-out of the new ProScript Connect product now approaching completion.

Specialist & Care delivered double-digit revenue growth as expected with the full year benefit of new contracts implemented during 2017. Profit improved significantly year on year, with the benefit of operational efficiencies and contract renegotiations resulting in an enhanced operating margin.

In Patient, the business continued to invest in developing its future business model focussed on the digital healthcare marketplace, in line with the plan previously announced, reporting a £1.3m higher adjusted operating loss than in the prior year. Revenue was held back by lower levels of website traffic following changes in Google algorithms, but still grew by 4% overall.

Revenue

Group recurring revenue, principally software and software licences, maintenance & software support, hosting and other support services, was £140.7m (2017: £133.5m), up 5% and representing 83% of total revenue (2017: 83%). This high level of recurring revenue and the strength of the Group's customer relationships continue to provide an excellent foundation for the business to invest with confidence in developing future products and services, as well as providing good visibility of future financial performance.

The drivers of revenue change within the Group included the following:

- software and software licences, higher at £62.2m (2017: £55.1m), including business growth and the benefit of the sale of a legacy software product to Northern Territory, Australia;
- maintenance & software support, consistent at £41.3m (2017: £41.4m) with business growth offset by reduced revenues from legacy products;
- other support services, driven higher to £35.6m (2017: £32.5m) by the full year benefit of contract wins in EMIS Care;
- hosting, which was largely unchanged at £11.9m (2017: £11.6m);
- training, consultancy and implementation, which reduced to £11.8m (2017: £12.4m); and
- hardware revenues, which were also largely unchanged at £7.3m (2017: £7.4m).

Summary segmental performance

	Primary, Community & Acute Care		Community Pharmacy		Specialist & Care		Patient		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Revenue	**121.7**	117.6	**25.0**	21.9	**20.4**	18.0	**3.0**	2.9	**170.1**	160.4
Adjusted segmental operating profit/(loss)	**33.6**	34.9	**7.6**	5.6	**1.1**	0.2	**(3.2)**	(1.9)	**39.1**	38.8
Group expenses									**(1.5)**	(1.4)
Adjusted operating profit[1]									**37.6**	37.4
Adjusted operating margin	**27.6%**	29.7%	**30.2%**	25.7%	**5.5%**	0.8%	**(106.9)%**	(64.9)%	**22.1%**	23.3%

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items.

Financial review continued

Profitability

Adjusted operating profit increased by 1% to £37.6m (2017: £37.4m), after taking account of the increased level of investment in the Patient business during the year. Excluding Patient's results, where losses were higher in 2018 as a result of this investment, adjusted operating profit across the Group grew by 4%.

The adjusted operating margin reduced to 22.1% (2017: 23.3%), but excluding Patient was more consistent at 24.4% (2017: 24.9%).

Group staff costs increased in line with growth in year-end staff numbers (2,047 compared to 1,922 a year previously) and a higher average headcount of 2,024 (2017: 1,906). However, the allocation of those staff across the Group has changed over the year, with a significant increase in India (up from 197 to 291) and a different profile in the Primary Community & Acute Care segment in particular. Having completed the investment in development and customer-facing functions during the year, staff numbers are expected to reduce gradually and costs to increase more slowly in 2019.

The Group has recognised one exceptional item in 2018 in respect of finalisation of the service level reporting charge. This charge, relating to the NHSD reporting issue, was estimated at £11.2m in the 2017 accounts and was confirmed during 2018 at a lower level than originally expected, resulting in a provision release of £1.7m in the year.

After accounting for the exceptional item, the capitalisation and amortisation of development costs and the amortisation of acquired intangibles, statutory operating profit was £28.7m (2017: £10.6m).

Taxation

The tax charge for the year was £5.5m (2017: £2.1m). The effective tax rate for the year was 18.9% (2017: 19.8%).

Earnings per share (EPS)

Adjusted basic and diluted EPS were 1% higher at 47.4p and 47.3p respectively (2017: 47.2p and 47.0p). The statutory basic and diluted EPS were higher at 36.1p and 36.0p respectively (2017: 12.8p for both measures) as a result of the impact on the respective years of exceptional items.

Dividend

Subject to shareholder approval at the AGM on 8 May 2019, the Board proposes an increase in the final dividend to 14.2p (2017: 12.9p) per ordinary share, payable on 13 May 2019 to shareholders on the register at the close of business on 12 April 2019. This would make a total dividend of 28.4p (2017: 25.8p) per ordinary share for 2018. This is 10% higher than in the prior year, reflecting the Group's strong financial position, the Board's commitment to increasing dividends in line with underlying earnings growth and its continued confidence in the Group's prospects.

Cash flow and net cash

The principal movements in net cash were as follows:

	2018 £m	2017 £m
Cash from operations:		
Cash generated from operations	**49.9**	48.8
Less: internal development costs capitalised	**(5.8)**	(4.4)
Adjusted cash generated from operations	**54.5**	49.7
Cash cost of exceptional items	**(10.4)**	(5.3)
Net cash generated from operations	**44.1**	44.4
Business combinations	**(1.4)**	—
Acquisition of non-controlling interest	**(8.0)**	—
Net capital expenditure	**(6.8)**	(6.6)
Transactions in own shares	**0.3**	—
Tax	**(5.8)**	(8.1)
Dividend to non-controlling interest shareholder	**(4.0)**	—
Dividends	**(17.1)**	(15.5)
Other	**0.3**	0.2
Change in net cash in the year	**1.6**	14.4
Net cash at end of year	**15.6**	14.0

Cash generated from operations increased by 2% to £49.9m (2017: £48.8m), with a strong working capital improvement. Adjusted cash from operations is stated after adding back the cash cost of exceptional items of £10.4m (2017: £5.3m) and after deducting capitalised development costs. On this adjusted basis, cash flow from operations was 10% higher than in 2017.

The Group completed the acquisition of 90% of the shares in Dovetail Digital Limited during the year for an initial cash consideration, net of cash acquired, of £1.4m.

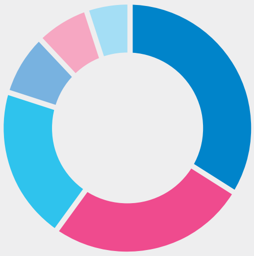
The Group purchased the non-controlling interest in its Community Pharmacy (Rx Systems) subsidiary during the year for £8.0m. Prior to completion of this transaction, the business paid a dividend to its shareholders of £19.0m from its accumulated reserves, of which £4.0m was paid to the then non-controlling interest shareholder, with the balance retained within the Group.

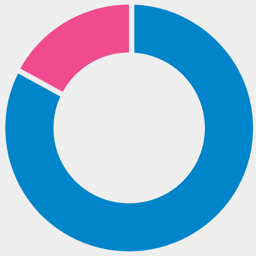
Net cash spent on capital expenditure (excluding capitalised development costs) was broadly consistent at £6.8m (2017: £6.6m). Capital additions in the year included £5.3m on computer equipment (£0.9m of which related to funded hosting contract assets), £0.8m on internal systems and software and £0.5m on programme assets in EMIS Care.

After tax, dividends and other transactions, the total net cash inflow of £1.6m resulted in a year-end net cash position of £15.6m (2017: £14.0m). At 31 December 2018, the Group had available bank facilities of £30.0m committed until June 2021, with an accordion arrangement to increase the quantum up to £60.0m and a further option to extend the period up to June 2022.

Peter Southby
Chief Financial Officer
19 March 2019

REVENUE ANALYSIS





Total revenue
£170.1m +6%

2018	170.1
2017	160.4
2016	158.7
2015	155.9
2014	137.6

Recurring revenue[2]
£140.7m +5%

2018	140.7
2017	133.5
2016	128.5
2015	123.0
2014	102.7

Reported operating profit
£28.7m +170%

2018	28.7
2017	10.6
2016	23.5
2015	11.4
2014	29.1

Adjusted operating profit[1,2]
£37.6m +1%

2018	37.6
2017	37.4
2016	38.8
2015	36.6
2014	32.6

Reported cash generated from operations
£49.9m +2.1%

2018	49.9
2017	48.8
2016	43.7
2015	42.7
2014	44.9

Adjusted cash generated from operations[2]
£54.5m +10%

2018	54.5
2017	49.7
2016	41.1
2015	36.5
2014	38.3

Reported EPS
36.1p +182%

2018	36.1
2017	12.8
2016	30.4
2015	7.2
2014	35.3

Adjusted EPS[1,2]
47.4p +0.4%

2018	47.4
2017	47.2
2016	49.4
2015	45.3
2014	39.5

Total dividend for the year
28.4p +10%

2018	28.4
2017	25.8
2016	23.4
2015	21.2
2014	18.4

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items as set out in the Group statement of comprehensive income on page 82. Earnings per share calculations also adjust for the related tax and non-controlling interest impact.

2 These are alternative performance measures. See page 20 for further details and reconciliation to the relevant IFRS number.

The people behind the business

EMIS Group is committed to being a great place to work. The people are its energy and drive: the Group believes that investing in career development for its people empowers them to take the business to the next stage of growth.

The Group has focussed on building the foundations of a people strategy it can be proud of: frequent and engaging communications, creating a women's network and management development programme. With these strong cornerstones in place, the Group can move to the next stage in becoming an employer of choice, with plans to develop even further in five key areas: inspirational leadership; talent and development; reward and recognition; operational excellence; and culture and communication.

EMPLOYEES

People strategy

The Group is focussed on using colleague feedback to drive positive change. The regular Your Say employee survey led to improvements in standardised performance reporting and personal development. During 2018 the survey results demonstrated an increase in engagement and energy for the Group's strategic direction.

The Group continues to focus on development of employees at all levels, including the leadership team, so that together they form motivated, high-performing teams.

Equality and diversity

EMIS Group recognises the benefits of a diverse workforce. During 2018 the Group published its GPG information, showing a mean average of 17.6%, in line with the national average mean of 17.4%. The Group is committed to improving this and launched three initiatives during 2018: a women's network; an improved maternity policy; and a new flexible working policy.

The Group will publish information in line with the requirements of the Equality Act 2010 (Gender Pay Gap Information) Regulations on an annual basis. Further details on equality and diversity are included in the nomination committee report on pages 56-57 and in the report of the remuneration committee on pages 58-60.

Enhanced benefits

EMIS Group is focussed on continual improvement of employee benefits. During 2018, the Group took the decision to increase its Company-funded life assurance cover from two to four times employees' annual salary, effective from 1 January 2019.

Existing employee benefits include buying and selling holidays and a healthcare cash plan. In 2018 the Group added marketplace benefits, for example health assessments and discounted gym memberships.

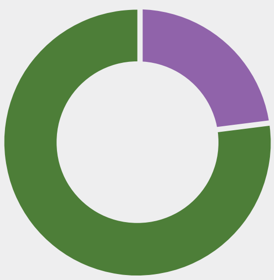
Pension contribution

94% of UK employees have pension contributions paid on their behalf into a pension scheme. New employees are auto-enrolled into their relevant scheme with the contribution rates offered by the Group ahead of minimum requirements. The Group has been increasing pension contributions over a number of years and by April 2019 pension contributions will be a minimum of 9% (4.5% employee and 4.5% employer) rising to 10% by April 2020 (5% employee and 5% employer).

Share Incentive Plan

The Share Incentive Plan (SIP) is offered to all employees with over twelve months' service. At the end of 2018, 757 employees from across the Group were active shareholders in the SIP.

GENDER DIVERSITY



SENIOR MANAGEMENT
(including Directors)[1]

- Female 23%
- Male 77%

1 Senior management as defined by EMIS Group.

ALL EMPLOYEES

- Female 39%
- Male 61%

Q&A with Jacqui Summons

In 2017 EMIS Group welcomed new Group HR Director Jacqui Summons into the business. This began a new drive to attract and retain key talent. The Group has particularly focussed on growing and developing the clinical, product, technology, development and commercial teams, as well as on improving workplace culture in every business area.

What has been the biggest change EMIS Group has seen during 2018?
The women's network has been a huge success. We've hosted inspiring events about making EMIS Group an even better place to work, with employees across the business joining the discussions. It's been a catalyst for a cultural shift already, as people turn their attention to actively supporting colleagues even across geographical or divisional boundaries.

What do you think 2019 holds for the people of EMIS Group?
It's an exciting time at EMIS Group, with the launch of EMIS-X and the development of new technologies to support citizen wellbeing and medicines management; there's a real air of positive change and enthusiasm for the refreshed strategy.

What made EMIS Group stand out as the next step in your career?
EMIS Group is an organisation with a very bright future and much of this can be realised through a more effective HR strategy, nurturing our employees' passion for doing the right thing and making this more commercially focussed.

How is EMIS Group different?
It's quite simply the energy and commitment of the people. As a Group we work together to channel our collective passion for the improvement of health and wellbeing in the UK. We know the difference good technology and service can make, and we know we are working on initiatives that will make tangible improvements in healthcare. That makes it an exciting, energetic place to be.

Jacqui Summons
Group HR Director

How we are evolving

INITIATIVES INTRODUCED IN 2018

CARING EMIS

The inaugural year of the Group's charity partnership programme, Caring EMIS, has led to increased employee engagement and improved staff health and wellbeing, as well as fundraising activities by employees for both Mind (UK) and local children's and elderly charities (India). The Group is proud to give back to the communities in which it operates.

FAMILY-FRIENDLY POLICY

EMIS Group enhanced its family-friendly policy and offered improved maternity, adoption and shared parental pay and a return to work bonus. In 2019 the Group will enhance this by introducing a mentoring programme that supports returners back to the workplace after periods of leave, providing a support network.

FLEXIBLE WORKING

The new policy sets out the Group's approach to embracing a flexible working culture in a standardised way across the business. EMIS Group is committed to creating a culture that supports employees asking for flexible working, ensuring all employees have an opportunity to discuss their options, including those balancing family and work life.

Moving forwards as an employer of choice

The Group has identified five key objectives for 2019, forming the five pillars of its people strategy.

Inspirational leadership

The Group is blending the experience and knowledge of the existing leadership team with new hires into the business, building a powerful combination of clinical, technological and business expertise.

In 2019 the focus will be on leadership development, identifying, coaching and building the strengths of future leaders. The Group's strong and inspirational leadership will deliver the Company strategy: communicating complex change simply, solving problems quickly and motivating teams.

Talent and development

2018 saw a number of talented new hires join the business. In 2019 EMIS Group will continue to build on this success and seek to attract and engage new talent. This includes investing in effective upskilling, retraining and professional development to support career progression utilising the apprentice levy within EMIS Group, to increase enthusiasm, motivation and loyalty to the Company.

Sima Jassal

HEAD OF PHARMACY

"Having spent several years in community pharmacy, I wanted to do more for the profession and to improve patient care. My role as Head of Pharmacy allows me to do just that and much more.

"My role is varied, from being responsible for our drugs database to ensuring that our products and services are clinically sound. I am also working on strategic projects that improve patient care and allow pharmacists to excel."

Reward and recognition

EMIS Group is becoming more performance focussed and appointed a Head of Reward and Recognition in January 2019. The focus is to attract, retain and motivate talent within the organisation by supporting the development of a performance-based culture. The Group aims to reward and recognise performance fairly and consistently, using a new rewards policy that uses external market data to benchmark reward and pay plans that help drive higher levels of performance.

Operational excellence

When HR is operationally excellent and efficient, it can focus less on transactional and more on transformational support, which in turn helps the rest of the business to focus more on their areas of delivery too. The Group plans to make key HR operations as efficient as possible, encompassing process improvement, system optimisation, customer experience, compliance and governance.

Culture and communication

In 2018 the Group focussed on better internal communications, including use of Workplace, the intranet and live video Q&A sessions with the Chief Executive Officer and other senior management.

The Group is keen to listen too: communication is a two-way process and more employees than ever have fed back through the Your Say surveys, with 89% of employees having completed one or more surveys in 2018. Building on this success in 2019 will allow every employee to learn more about the business to feed back and to ask questions.

The Group aims for every colleague to experience consistent communication, as open and transparent as possible, working to our joined-up and caring Group values.

Equally important to the Group is offering employees the opportunity to give back to the communities in which they live and work. 2019 will be the second year of the Caring EMIS programme, supporting employees to raise funds for Mind in the UK and local charities that support children and the elderly in India.

Information on our ethical business practices, equal opportunities for employees and the Modern Slavery Act is included in the Directors' report on page 74.

SUSTAINABILITY POLICY

Health and safety
EMIS Group is committed to maintaining high standards of health and safety. New starters receive health and safety training during their induction period and refresher training is provided to all employees every 18 months.

One RIDDOR accident was reported during the year, which was a reduction on the previous year (2017: three RIDDOR accidents).

Environmental management
EMIS Group continues to hold the ISO14001 Environmental Management System standard, maintaining its focus on the impact of waste, travel and utility usage on the environment.

ISO14001 accreditation currently covers Group operations in the UK only, but during 2018 the Group also began to report on some areas of its operations in India.

Waste
During the year there was an 8% per head reduction in the total electronic waste disposed and a 14% per head reduction in confidential waste across the UK (excluding EMIS Care).

Travel
The Group offers the cycle to work scheme and hybrid company fleet vehicles, to encourage its people to make more fuel-efficient and environmentally friendly choices. In 2018 the CO_2 emissions average of the fleet was 105g/km (2017: 109g/km).

Utilities
EMIS Group aims to implement energy-efficient programmes when replacing equipment and services, including office redevelopment, to reduce its energy consumption. In 2018 energy consumption at the major sites was 6,254,962 kWh (2017: 7,169,207 kWh) giving a reduction of 13%.

The strategic report on pages 2 to 41 is signed on behalf of the Board.

Peter Southby
Chief Financial Officer
19 March 2019

Eduardo Aguilar Pelaez

CHIEF OPERATIONS OFFICER OF PATIENT

"As Chief Operations Officer I'm responsible for guiding the product strategy, design and business analytics for Patient. I joined the Group in 2018 and straight away the potential for the growth of our Patient business has been really exciting. The team is passionate about providing the highest quality information to the general public through the Patient website and also in providing new technology solutions to help patients get in control of their healthcare."

Paul Lowry

GROUP CHIEF ENGINEER

"I've worked at EMIS Health for 14 years in various roles in development including Chief Architect, Innovation Director and Group Technology Director. I'm passionate about healthcare using the power of technology to deliver a positive impact on patient outcomes. My team and I work closely with clinicians and technologists to make sure we stay focussed on the real experiences of our end-users, so we know exactly how technology can help."

Board of Directors

MIKE O'LEARY
Non-executive Chairman

APPOINTED
March 2011

BOARD COMMITTEES[1]
A R N

SKILLS AND EXPERIENCE
Over 30 years' main board experience serving on AIM listed, FTSE 250 and FTSE 100 companies

Experience of running global operations in varied business environments with focus on the technology sector

In-depth knowledge and understanding of UK and international healthcare sectors

EXTERNAL APPOINTMENTS
CURRENT
Non-executive director, Epwin Group plc

PREVIOUS
Main board director and joint chief operating officer of Misys plc, chief executive of Healthcare and Insurance divisions of Misys plc, chairman of ACT Medisys, chief executive of Huon Corporation, chief executive of Marlborough Stirling plc, chairman of Digital Healthcare Ltd, non-executive director and chair of remuneration of Headlam Group plc, non-executive director and chair of remuneration committee at Psion Group plc, non-executive director and chair of remuneration committee at Stroud & Swindon Building Society, non-executive director and senior independent director at Helphire Group and chief executive officer of West Bromwich Albion Group PLC

1 From 1 January 2019, Mike O'Leary will no longer be a member of the audit committee in line with the new UK Corporate Governance Code.

ANDY THORBURN
Chief Executive Officer

APPOINTED
May 2017

BOARD COMMITTEES
None

SKILLS AND EXPERIENCE
Over 17 years' experience in the software industry in the UK and internationally

Ability to drive significant growth in revenues and profitability for companies through organic growth as well as mergers and acquisitions

Track record in software and communications industries

Considerable experience in senior management and executive positions

EXTERNAL APPOINTMENTS
CURRENT
None

PREVIOUS
Group chief operating officer of Digicel Group, chief executive officer of Digicel Caribbean and Central America, chief executive officer of Digicel Jamaica, Chief Executive Officer/president roles at Intec Telecom Systems plc, Chronicle Solutions Ltd and a number of Benchmark Capital Portfolio companies (including Kalido Inc. and Orchestria Ltd) and a managing director within BT Group

PETER SOUTHBY
Chief Financial Officer

APPOINTED
October 2012

BOARD COMMITTEES
None

SKILLS AND EXPERIENCE
Over 20 years' experience in finance, mainly in a public company environment, with over half of this at board level

Proven ability in corporate transactions, including fundraising and acquisitions

Detailed knowledge of strategy across multiple industry sectors, with a focus on support services

Institute of Chartered Accountants in England and Wales (Fellow)

EXTERNAL APPOINTMENTS
CURRENT
None

PREVIOUS
Finance director at ENER-G plc and Augean plc, senior financial positions at White Young Green plc and Leeds United plc and trained with Arthur Andersen as audit manager

ROBIN TAYLOR
Senior Independent Non-executive Director

APPOINTED
March 2010

BOARD COMMITTEES
A R N

SKILLS AND EXPERIENCE
Wealth of corporate finance and general management experience in Europe and North America

Extensive knowledge of financial reporting, financial transactions and risk management

Highly experienced plc director

Institute of Chartered Accountants of Scotland

EXTERNAL APPOINTMENTS
CURRENT
Non-executive director of FDM Group plc and non-executive director of Alfa Financial Software Holdings plc

PREVIOUS
Chief financial officer of Intec Telecom Systems plc, chief financial officer of ITNET plc, chief financial officer of JBA Holdings plc, non-executive director of Phoenix IT Group plc and non-executive director of Fusionex International plc

ANDY McKEON
Independent Non-executive Director

APPOINTED
September 2015[2]

BOARD COMMITTEES
A R N

SKILLS AND EXPERIENCE

Profound knowledge of the NHS and extensive experience in shaping health policy

Extensive knowledge of European and American healthcare

Advocate for change which benefits patients

Broadly based NED experience across the private and public sectors

Over 20 years' senior and board-level management experience in major organisations

EXTERNAL APPOINTMENTS

CURRENT
Chairman of The Nuffield Trust

PREVIOUS
Interim chief executive of The Nuffield Trust, managing director of health at the Audit Commission, departmental board member at the Department of Health (director general responsible for policy and planning), head of primary care at the Department of Health, deputy chief executive at the Barts and London NHS Trust, adjunct professor of the Institute of Global Health Innovation, Imperial College London and vice-chair at the National Institute for Health and Care Excellence (NICE)

2 Having previously served on the Board between February 2013 and April 2015.

DAVID SIDES
Independent Non-executive Director

APPOINTED
January 2017

BOARD COMMITTEES
A R N

SKILLS AND EXPERIENCE

Strong commercial and financial skills

Deep knowledge of the healthcare technology sector

Well-developed leadership and global team management skills

In-depth knowledge and understanding of UK and international healthcare sectors

American College of Healthcare Executives (Fellow)

EXTERNAL APPOINTMENTS

CURRENT
President and CEO of Streamline Health Inc.

PREVIOUS
CEO of IMDSoft Inc., managing director of Cerner UK and Ireland, senior vice president of Worldwide Consulting and senior vice president of Cerner

KEVIN BOYD
Independent Non-executive Director

APPOINTED
May 2014

BOARD COMMITTEES
A R N

SKILLS AND EXPERIENCE

Considerable senior management and listed company experience

Real-time financial experience and software systems knowledge

Experience of running complex business and corporate transactions

Institute of Chartered Accountants in England and Wales (Fellow)

Institution of Engineering and Technology (Fellow)

EXTERNAL APPOINTMENTS

CURRENT
Group finance director at Spirax-Sarco Engineering plc

PREVIOUS
Group finance director at Oxford Instruments plc and Radstone Technology plc, finance director at Siroyan Ltd and held senior financial positions at TI Group plc

BOARD OF DIRECTORS KEY

COMMITTEE MEMBERSHIP

- A Audit committee
- R Remuneration committee
- N Nomination committee
- ● Chair of committee

Executive

Non-executive

SUMMARY OF SKILLS BROUGHT TO EMIS GROUP

Technology/software experience:	●●●●●●○
Healthcare experience:	●●●○○○○
Financial experience:	●●●●●●○
Previous PLC board experience:	●●●●●○○
Growing business/strategic experience:	●●●●●●●

High standard of corporate governance

Mike O'Leary
Chairman

DEAR SHAREHOLDER

On behalf of the Board I am pleased to present the EMIS Group plc corporate governance report for the year ended 31 December 2018.

Good governance is important to us

As Chairman, I am responsible for ensuring that the Board operates effectively and that it continues to uphold a high standard of corporate governance. The Board understands the importance of ensuring that there is a strong governance framework in place which underpins the Company's ability to achieve its strategic goals. Governance arrangements are reviewed on an ongoing basis to ensure that they remain fit for purpose. As the Company operates within the healthcare sector, it is important the focus remains on the safety and security of the Company's products as well as balancing the interests of all our stakeholders.

2018 BOARD ATTENDANCE

The attendance record for Board members during the year ended 31 December 2018 is set out below. Additional ad hoc meetings are held at short notice, as appropriate.

	Number of meetings attended[1,2]
Executive Directors	
Andy Thorburn	16/16
Peter Southby	16/16
Non-executive Directors	
Mike O'Leary	16/16
Robin Taylor	16/16
Kevin Boyd	13/16
Andy McKeon	15/16
David Sides	16/16

1 There were nine scheduled Board meetings, the remainder were ad hoc.

2 Kevin Boyd and Andy McKeon were both absent from one scheduled Board meeting, Kevin due to illness and Andy due to interrupted travel.

The Board's roles and responsibilities

The Board's principal role is to provide effective leadership of the Group. It is responsible to shareholders for delivering shareholder value by developing the overall strategy and supporting the development of the direction of the Group. The Board is also responsible for overseeing the Group's external financial and other reporting and for ensuring that appropriate risk management and internal control systems are implemented and maintained. These responsibilities are largely exercised through the audit committee, which reports on its activities on pages 51 to 55.

The Board has a schedule of matters reserved to it including, but not limited to:

- strategy and long-term objectives;
- financial statements, dividend payments and accounting policies and practices;
- approval of the Group budget;
- measuring performance using key performance indicators (KPIs), both financial and non-financial;
- capital structure;
- internal controls and risk management;
- acquisitions and disposals;
- major capital expenditure;
- legal (including major contracts), health and safety and insurance issues; and
- Board structure and the appointment of advisers.

The business model on pages 10 and 11 explains the basis on which the Group generates and preserves value over the longer term. The strategy of the Group and its achievements in 2018 are outlined on pages 14 to 16.

Compliance statement

The Company remains committed to high standards of corporate governance and during the year the Company has complied with all the provisions of the 2016 UK Corporate Governance Code ("the Code"). This report outlines how we have applied the Code's main principles. The Company will apply the new Code from 1 January 2019. Our statement of compliance, required for AIM companies can be found on our website at www.emisgroupplc.com/investors/corporate-governance. The Code is published by the Financial Reporting Council and is available at www.frc.org.uk.

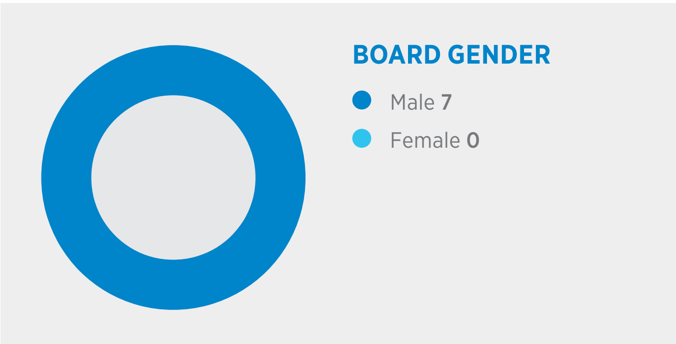
Leadership and effectiveness

The Board recognises the importance of establishing the right culture and communicating this message throughout the organisation. It is important that we provide strong and effective leadership and constructive challenge and, along with the GXT, accept collective accountability for the long-term sustainable success of the Group. In so doing, we will continue to drive and deliver our strategy in the best interests of all our stakeholders.

Board structure

There were no changes to the Board during the year. Biographies of individual Directors are provided on pages 42 and 43. Their respective Board and committee responsibilities are outlined below and in the individual reports of the various committees.

Robin Taylor will retire at the AGM on 8 May 2019 having served nine years on the Board. Andy McKeon will take on the role of Senior Independent Director and Kevin Boyd will take on the chairing of the audit committee. A recruitment process is underway to appoint an additional Non-executive Director. Appointments to the Board are led by the nomination committee. Further information on succession planning can be found in the nomination committee's report on pages 56 and 57.



Mike O'Leary, Kevin Boyd, Andy McKeon, Robin Taylor and David Sides were considered by the Board to be independent at the time of their appointments. Each Non-executive Director is considered to be independent as to character and judgement and to be free of relationships and other circumstances that might impact their independence. The Chairman and Non-executive Directors meet at least annually without the Executive Directors present.

Appointments of Non-executive Directors are for specific terms (initially for three years) and are subject to statutory provisions relating to the removal of a Director.

The Board delegates certain responsibilities to the three principal Board committees: the audit committee, the remuneration committee and the nomination committee. These responsibilities are set out in formal terms of reference for each committee, which are available on the Group's website, www.emisgroupplc.com/investors/corporate-governance, and which are reviewed annually.

The chairman of each committee reports to the Board in relation to the committee's activities and recommendations. Members of the Board who are not members of individual committees may be invited to attend meetings of those committees at the discretion of the respective committee's chairman; however, they are not permitted to vote in respect of committee business. Details are provided in the respective committee reports.

Audit committee – The committee is responsible for overseeing the Group's external financial reporting and associated announcements, considering risk management, internal controls procedures and the work of the external and internal auditors. The committee met four times during the year and comprises all the Non-executive Directors. Full details of the work of the committee are set out in the audit committee report on pages 51 to 55.

Remuneration committee – The committee is responsible for establishing a formal and transparent procedure for developing policy on Executive remuneration and for setting the remuneration of individual Directors. The committee met seven times during the year and comprises all the Non-executive Directors. Full details of the work of the committee are set out in the remuneration committee report on pages 58 to 71.

Nomination committee – The committee is responsible for leading the Board appointments process and for considering the size, structure and composition of the Board and it met four times in the year. Full details of the work of the committee are set out in the nomination committee report on pages 56 and 57.

The Board is satisfied that the size of the Board and its committees and the balance of Executive and Non-executive members is such that no individual or small group of individuals can unduly influence its decisions. The Board is made up of a majority of independent Non-executive Directors. As at the date of this report, the Board comprised the Chairman, four independent Non-executive Directors and two Executive Directors who collectively possess an appropriate balance of expertise appropriate to lead the Company's business. The Non-executive Directors have a broad range of UK and international business knowledge and experience, as well as specific skills in the NHS, healthcare, digital technology, finance, corporate transactions and risk management.

The Executive Directors do not hold any external directorships.

Directors are subject to election or re-election by shareholders at each AGM. The nomination committee considers that all the Directors continue to be effective and demonstrate an appropriate commitment to their roles.

Corporate governance continued

Leadership and effectiveness continued

Chairman

The roles of the Chairman and the Chief Executive Officer are separate and defined in writing. This provides a clear division of responsibilities between the running of the Board and the Executive responsibility of running the business. The key responsibilities of the Chairman, the Chief Executive Officer and Non-executive Directors are set out below:

Mike O'Leary, as Chairman, is responsible for the leadership and effectiveness of the Board.

The Chairman's responsibilities include:

- chairing the Board, the nomination committee and shareholder meetings (including the AGM);
- providing leadership of the Board and ensuring the effectiveness of all aspects of the Board's role;
- providing challenge to the Executive Directors and working closely with the Chief Executive Officer on key strategic decisions;
- maintaining a dialogue with major shareholders on governance and other strategic matters, as appropriate;
- setting the Board agenda and ensuring all Directors have the opportunity to maximise their contribution to the Board by encouraging open and honest debate and constructive challenge of the Executive Directors; and
- undertaking the annual evaluation of the Board and the Directors and building an effective Board.

On his appointment, Mike O'Leary met the Code's requirement for independence. There have been no significant changes to his other commitments during the year which could impact his ability to perform his duties for the Group.

Chief Executive Officer

The Chief Executive Officer, Andy Thorburn, is responsible for the implementation of the approved strategic and financial objectives of the Group. To assist in this, the Chief Executive Officer leads the GXT which consists of the Chief Operating Officer, the Divisional Managing Directors, the Chief Financial Officer, the Group HR Director, the Chief Medical Officer, the Chief Technology Officer and the Group Business Development Director. The GXT will be strengthened further in the next couple of months with the appointment of a Chief Executive Officer for EMIS Health and a Chief Solutions Officer. The GXT has a weekly call and meets in person at least once a month with a focus on cross-Group integration and operational performance.

The Chief Executive Officer's responsibilities include:

- the day-to-day running of the business being accountable to the Board for the Group's financial and operational performance;
- developing and reviewing the Group strategy;
- with the Chief Financial Officer, maintaining close contact with government, shareholders and major customers;
- with the Chief Financial Officer, approving the divisional budgets;
- chairing the GXT to direct and co-ordinate the management of the Group's business generally;
- monitoring the performance of senior managers; and
- monitoring the Group's principal risks.

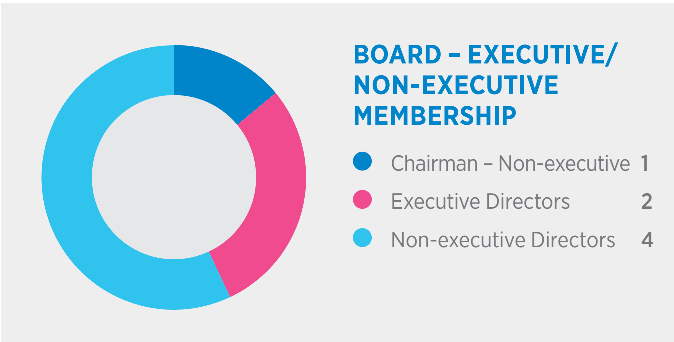
Senior Independent Director

The Senior Independent Director, Robin Taylor, acts as a sounding board for the other Directors and conducts the Chairman's annual evaluation. He is also available to Directors and shareholders should a situation arise where it is necessary for concerns to be referred to the Board other than through the Chairman or the Chief Executive Officer. Andy McKeon will take on the role of Senior Independent Director upon Robin Taylor's retirement after the AGM on 8 May 2019.

Non-executive Directors

The Non-executive Directors provide independent, constructive challenge and insight to the Executive team forming an integral part of the Board's decision-making process together with the monitoring of management and business performance.

The Non-executive Directors play a key role in developing and reviewing proposals on strategy, actively participating in the annual strategy forum. They strengthen governance through participation in and chairmanship of the Board committees, providing a wide range of experience and independence. This aids the Board in developing a broader understanding and in evaluating the implications, risks and consequences of decisions.



Board operation

The Board meets as often as necessary to discharge its duties.

The number of Board meetings held during the year ended 31 December 2018 together with the Directors' attendance records is set out on page 44. Details on the number of committee meetings held during the year together with the Directors' attendance records can be found in the committee reports on pages 51, 56, and 58. The location for Board meetings is rotated around the Group's principal sites in order to provide opportunities for the Board to meet management and employees and develop a better understanding of the Group's operations and culture within the Group.

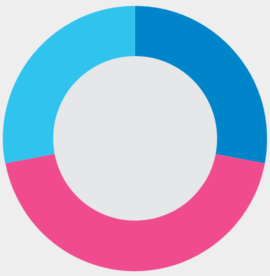
The Directors have access to the advice and services of the Company Secretary, Christine Benson, who is responsible for ensuring that the Board and its committees' procedures and applicable rules and regulations are met. The Directors all have access to the Group's key advisers. If required in the performance of their duties, Directors may take independent professional advice at the Company's expense. Appropriate insurance cover is in place in respect of legal action against the Directors. The Company has adopted and maintained a share dealing code for Directors and employees in accordance with the Market Abuse Regulations.

Board and committee papers are circulated one week in advance of meetings to enable the Board to review and consider the materials provided.

The Chairman ensures that input is sought and obtained from any Director who is unable to attend a Board meeting and he provides a verbal update following the meeting to complement the minutes. There is ongoing contact between the Chairman, Executive Directors and Non-executive Directors between Board meetings.

The amount of time that Non-executive Directors are expected to commit to discharge their duties is agreed on an individual basis at the time of appointment and reviewed periodically thereafter. The time commitment agreed takes into account whether the appointee is the chair or a member of a Board committee(s) and whether the Director has any external executive responsibilities. Typically this equates to circa two days per month for a Non-executive Director and four days per month for the Chairman. As part of the Chairman's annual review of Directors' performance it was confirmed that each of the Non-executive Directors continues to allocate sufficient time to discharge responsibilities effectively and did so throughout the year.

A topical Board calendar is prepared on an annual basis with GXT members regularly invited to attend to present an update on their areas of the business. This is highly valuable in providing further detail to support strategic decisions. In addition, the Board meets on an ad hoc basis as necessary to consider specific issues, such as potential corporate activity, which are supported by detailed Board papers circulated in advance analysing all relevant aspects of the topic under discussion.



TENURE (BOARD)

0–3 years	2
4–6 years	3
7+ years	2

Standing agenda items

At each meeting comprehensive Board packs are provided and the following standing items are discussed:

- strategy;
- financial results and KPIs;
- sales pipeline;
- management accounts and commentary;
- reports from the Chief Executive Officer on operational matters and the Chief Financial Officer on financial matters;
- regular presentations from members of the GXT;
- mergers and acquisitions;
- progress reports on major projects;
- analysts' forecasts;
- Board committee updates;
- investor relations engagement;
- legal, governance and regulatory matters; and
- implementation of actions agreed at previous meetings.

Key topics considered by the Board in 2018

- acquisition opportunities;
- banking facilities;
- presentation on Patient;
- review, debate and challenge of the corporate strategy and plan;
- 2019 Group budget;
- Group operating model;
- presentation on Specialist & Care;
- presentation on partners and analytics;
- financial results announcements, presentations, report and accounts and market updates (annual and half year);
- the Group's viability statement and capital allocation policy;
- presentation on information security;
- Group segmental reporting;
- risk profile;
- the Board evaluation report and discussion of the recommendations and review of the Chairman's performance;
- management information and KPIs;
- half yearly update on environmental/health and safety matters;
- cyber security; and
- operational efficiency, including service level reporting.

Corporate governance continued

Leadership and effectiveness continued

Board and committee effectiveness

The Board has extensive operational experience and many years of detailed knowledge of the healthcare sector, both in the UK and overseas. The Board also benefits from significant financial, transactional, risk management and public company expertise.

During the year, the Chairman undertook an overall effectiveness review, including the performance of the Board and each Director.

The Chairman met individually with each Board member during the year. A framework for those meetings was provided covering topics which included strategic direction, governance, meeting agendas, Board packs, Board composition, risk monitoring and mitigation, and specific areas for improvement. Board members were invited to add any other topics to this agenda which they felt to be material or appropriate.

When considering Board appointments, a wide variety of factors is taken into account, including the balance of skills, experience, independence, knowledge of the Group and diversity, including gender.

The 2018 Board evaluation concluded that the Board meets its regulatory requirements and that appropriate processes are in place for setting the strategic direction of the Group. Board discussions are open and constructive and members are encouraged to express their views in an independent fashion.

A tailored questionnaire was circulated for completion by members and regular attendees of each principal committee, covering all aspects of good governance. Directors were required to assess their satisfaction with the operation of the Board and its committees, as well as effectiveness of these bodies in fulfilling the key responsibilities set out in their respective terms of reference. The responses were collated and discussed. Each committee concluded that it continued to be effective and all members are considered to have made valuable contributions.

Further details of the effectiveness of each committee are outlined in their individual reports.

As Senior Independent Director, Robin Taylor reviewed the performance of the Chairman with the other members of the Board. The Directors unanimously agreed that Mike O'Leary continues to lead the Board in an effective and inclusive way. He remains engaged, knowledgeable and committed to his role. Directors are actively encouraged to contribute to Board discussions on all matters of significance to the strategy and development of the business.

Conflicts of interest

Directors have a legal duty to avoid conflicts of interest. Prior to appointment, conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment. If any potential conflict arises, the Articles of Association permit the Board to authorise the conflict, subject to such conditions or limitations as the Board may determine. In situations where a potential conflict arises, the Director concerned will not be permitted to remain present in any meeting or discussion, and all material in relation to that matter will be restricted, including Board papers and minutes.

Induction and development

All new Directors undergo a comprehensive induction and development programme which is designed to help Directors make an early contribution to the Board. Induction programmes are tailored to the new Directors based upon their needs identified during the recruitment process. The aim is for an induction programme to be completed over a six to nine-month timescale depending upon the Directors' knowledge, experience and other commitments. New Directors receive a comprehensive pack of information and a tailored induction programme that includes meeting the senior management team. This ensures that knowledge and understanding of the business and its technology are developed and the Board is kept up to date with Group developments. All Directors are encouraged to attend relevant training courses and events.

The process for the appointment of new Directors is rigorous and transparent; further information is contained in the report of the nomination committee on pages 56 and 57.

Accountability

There are formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles are applied.

The Company has a range of governance-related policies and procedures in place, including: a code of ethics and standards of business conduct; an anti-bribery and corruption policy and online training programme; a whistleblowing policy including an externally operated confidential whistleblowing hotline; an anti-tax evasion policy; a treasury policy; human resource and staff welfare policies and procedures; and health, safety and environmental policies.

Internal control

The Board is accountable to its shareholders and seeks to balance their interests with those of a broader range of stakeholders, which includes employees, suppliers, customers, regulators and the community. The Board has ultimate responsibility for the Group's internal control arrangements and for reviewing their effectiveness. Such arrangements guide and direct the activities of the Group to support delivery of its strategic, financial, operational and other objectives and safeguard shareholders' investment and the Group's assets. The Board governs through clearly defined committee structures, which support the work of, and are accountable to, the Board. Details of the role and activities of the principal committees are set out in the committee reports.

The Board recognises that a system of internal control reduces, but cannot eliminate, the likelihood and/or impact of poor judgement in decision-making, human error, deliberate circumvention of control processes by employees and others, management override of controls and the occurrence of unforeseeable circumstances.

The Board sets policies and seeks and obtains on an ongoing basis, both directly and through the audit committee, assurance regarding the existence and operation of appropriate internal controls to mitigate key strategic, financial, operational, compliance and reputational risks. The Board and audit committee consider any significant control matters raised in reports from management, the Company's external auditor and the Head of Group Internal Audit, and they monitor the progress of remedial actions.

The key components of the Group's overall control frameworks, all of which were in place, or established, throughout the year ended 31 December 2018 and up to the date of approval of this report, are set out below:

- delegated limits of authority in place;
- an appropriate finance function for each business unit in the Group with suitably qualified and experienced professionals;
- a comprehensive weekly and monthly financial and operational performance reporting system is in place which covers, amongst other things, operating results, cash flow, balance sheet information, forecasts and comparisons against budgets;
- a risk management committee meeting on a monthly basis to review and monitor risk and mitigating controls across the Group; and
- regular updates to the Board from management on property, insurance, litigation, human resources, corporate social responsibility and health and safety matters.

Segregation of duties, authorisation limits and other key internal controls are designed into both system-based and manual processes. These arrangements are reviewed periodically by management, internal quality assurance functions and internal audit to ensure they remain appropriate.

The Group has extensive internal quality assurance processes in critical areas of the business and there are functions within the Group that provide assurance and advice covering specialist areas, such as information security and clinical safety.

The Group's divisions hold ten ISO certifications against the following four standards: ISO27001: Information Security; ISO9001: Quality Management; ISO20000: Service Management; and ISO14001: Environmental Management.

A single management system covers all four standards and six of the ten certifications.

Throughout 2018 the Group continued to consolidate and update its ISO certifications. In 2019, this consolidation will continue, including merging EMIS Health Primary and Egton's ISO20000 certifications. EMIS Health Acute is in the process of obtaining ISO20000 certification, which is also expected to be merged once obtained and fully embedded in the business.

The scope of the certifications is also expanding in 2019 by working towards obtaining ISO22301: Business Continuity Management certification, which will cover head office and data centre operations, providing further assurance that operational activities and processes which support our key products will continue seamlessly in the event of a major incident.

Financial planning and monitoring

EMIS Group sets annual budgets, together with three-year projections, which are subject to Board approval.

The Board reviews business performance when it meets. Summary financial information, including actual performance versus budget and expected future performance, is provided to all Board members as part of the Board papers. The monthly reporting cycle now includes a twelve-month rolling forecast.

Policies, procedures and authorisation limits

The programme to define, create and embed Group-wide policies in key areas continued throughout 2018.

Policies and documented procedures in place include:

- Group finance manual;
- Group expenses policy;
- Group treasury policy;
- Group anti-tax evasion policy;
- delegated authority limits;
- Group anti-bribery and corruption policy;
- Group human resource and staff welfare policies;
- Group health, safety and environmental policies;
- Group code of ethics and standards of business conduct;
- Group contract management process; and
- Group whistleblowing policy.

The Group whistleblowing procedures include a confidential reporting hotline operated by an external, independent whistleblowing service provider. The policy and the reporting hotline continue to be internally promoted and all employees are required to acknowledge that they have read and understood the policy and procedures in place. In 2019, employees will be required to acknowledge that they have read and understood a wider range of policies, including the anti-bribery and corruption policy and the code of ethics and standards of business conduct.

Risk management

The approach to risk management, risk appetite and the principal risks themselves are set out on pages 22 to 27.

Internal audit

The Group has an established risk-based internal audit function. Resources were increased in 2018 with the recruitment of two additional internal auditors during the year and the signing of a co-sourcing agreement with Deloitte to provide specialist knowledge and expertise.

The Head of Group Internal Audit reports administratively to the Group Financial Controller, but operates independently and has direct and unfettered access to the chairman of the audit committee. These reporting lines are kept under constant review to ensure the function maintains its independence from management. The function provides regular and timely updates on its activities to the audit committee. The work of internal audit is further described in the report of the audit committee on pages 51-55.

Corporate governance continued

Remuneration

Remuneration is addressed separately in the report of the remuneration committee and the Directors' remuneration report on pages 58 to 71.

Relations with shareholders

Communication between the Company and its shareholders is an essential element of a sound governance framework.

The Chief Executive Officer and Chief Financial Officer provide the key focus for engagement with shareholders and prospective investors. During the year, a programme of meetings with analysts and institutional shareholders took place after the results announcements.

Feedback from these meetings, and regular market updates prepared by the Company's broker, are presented to the Board to ensure the Directors have a good understanding of shareholders' views. The Chairman and the Senior Independent Director are also available separately to shareholders to discuss strategy and governance issues. Feedback from any such communications is provided to the Board at the next scheduled meeting. The chairman of the remuneration committee consulted with a number of shareholders in 2018 to seek views on the 2018 LTIP awards.

In November 2018 the Company held a Capital Markets Day at the London Stock Exchange where investors and analysts were given an update on the Company's strategy. At this event, management outlined its strategy for the next stage of its growth, including insights into current market trends and opportunities, as well as the Group's overarching technology roadmap. Delegates were informed about the growth potential for the Group in medicines management and the opportunities and new developments for the Patient business.

Investors and analysts were shown demonstrations of some of the Group's key forthcoming technology developments and existing systems, including EMIS-X federated appointments and artificial intelligence, EMIS Health analytics, ProScript Connect, EMIS Web and the seamless transition path to EMIS-X, as well as online video consultations from Patient and Egton.

The Company has a dedicated investors section on its website, www.emisgroupplc.com/investors, together with a wide range of information on the Group's activities, including all regulatory announcements.

The AGM will be held at Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY, on Wednesday 8 May 2019 at 10.30am and I would like to take this opportunity to encourage shareholders to attend. The AGM provides a great opportunity for shareholders to ask any questions that they may have in respect of the Group's activities.

At the AGM, separate resolutions will be proposed for each substantially different issue. Proxy votes are disclosed by means of an announcement on the London Stock Exchange and via the Group's website. All Directors, including the committee chairmen, will be available to answer questions at the AGM. The annual report, including financial statements and related information, is made available in advance on the Group's website or posted to shareholders if they have requested a paper copy.

Mike O'Leary
Chairman
19 March 2019

Oversight to the financial reporting process

Robin Taylor
Chairman of the audit committee

DEAR SHAREHOLDER

I am pleased to present the report of the audit committee for the financial year ended 31 December 2018.

The audit committee provided oversight to the financial reporting process in order to ensure that the information provided to the shareholders is fair, balanced and understandable and allows accurate assessment of the Company's position, performance, business model and strategy.

During the year the committee also continued to oversee the risk management and internal control systems and was satisfied that the controls over the accuracy and consistency of information presented are robust.

2018 MEMBERSHIP AND ATTENDANCE

	Number of meetings attended[1]
Robin Taylor (chairman)	● ● ● ●
Mike O'Leary	● ● ● ●
Kevin Boyd	● ● ● ○
Andy McKeon	● ● ● ●
David Sides	● ● ● ●

1 Kevin Boyd was absent from one meeting due to illness.

- Other regular attendees are the Chief Executive Officer, Chief Financial Officer, Group Financial Controller, Head of Group Internal Audit, representatives from the external auditor KPMG, and the Company Secretary.
- The committee meets at least four times a year; it met four times in 2018.
- All committee members were considered independent upon their appointment.
- Robin Taylor and Kevin Boyd are considered to have recent and relevant financial experience.
- The committee as a whole has significant experience relevant to the industry sector the Group operates in.

KEY RESPONSIBILITIES

The committee reviews its terms of reference on an annual basis. These describe the committee's responsibilities in detail and they are available on the Group's website.

The committee assists the Board in meeting its responsibilities relating to financial reporting and internal control and risk management. It provides oversight and ensures that formal and transparent arrangements are in place in the following areas:

- financial reporting, which includes responsibility for reviewing the year-end and half year financial reports;
- oversight of the external audit process and management of the relationship with the Group's external auditor;
- risk management and related controls and compliance;
- internal audit, including monitoring of the Group's internal audit function, its processes and findings; and
- provision of whistleblowing facilities and prevention of bribery and other types of fraud and corruption.

The committee acknowledges and embraces its role in protecting the interests of shareholders. It also considers the interests of other stakeholders and it is committed to monitoring the integrity of the Group's reporting.

Report of the audit committee continued

Key activities in 2018	
Financial reporting	• Reviewed the full year results including the annual report and accounts, preliminary results statement and the report from the external auditor. • Reviewed the half year results statement. • Assisted the Board in ensuring that the annual report is fair, balanced and understandable. • Reviewed going concern assumption when considering half year and final results statement and long-term viability. • Assessed and considered the potential impact on the business of the UK leaving the European Union in 2019. • Considered the appropriateness of accounting policies, critical accounting judgements and key sources of estimation of uncertainty. • Reviewed the application and impact of new accounting standards including IFRS 15, IFRS 9 and IFRS 16. Further details on each of these are set out on pages 86 and 87.
External audit	• Reviewed and approved the 2019 audit plan and strategy including fees. • Assessed the effectiveness of the external audit process. • Agreed appropriateness of remuneration in respect of audit and non-audit services.
Internal audit	• Reviewed the key findings from internal audit reports conducted during 2018. • Reviewed and approved the scope and areas of focus for the three-year internal audit plan (2019–2021). • Reviewed and approved the Audit Charter.
Risk and internal control	• Monitored and assessed the Group's risk management process. • Reviewed the Group's risk appetite. • Monitored developments in the Group's risk management processes by reviewing minutes and action plans from operational risk management committee meetings and reviewing risk KPIs. • Assisted the Board in its assessment of the Group's principal risks and its review of the effectiveness of risk management and internal control processes. • Reviewed detailed information security and data privacy (GDPR) reports and action plans from operational management. • Received progress reports from senior management in respect of key internal projects, including customer service and support improvements and cyber security. • Monitored and reviewed the effectiveness of the Group's internal audit and finance functions.
Compliance	• Reviewed the Group's whistleblowing arrangements, confirming that they are operating effectively. • Approved a revised Group code of ethics and standards of business conduct. • Monitored anti-bribery and corruption training results. • Reviewed and approved the Group's treasury policy. • Reviewed the committee's terms of reference.

Composition and governance

There have been no changes to the composition of the committee during 2018. The Board evaluates membership of the committee on an annual basis. Biographical details of all of the Directors are set out on pages 42 and 43.

In addition to my role as chairman of the audit committee, I am also the Senior Independent Director. I will be retiring from the Board at the upcoming AGM on 8 May 2019, as I will have served nine years. Kevin Boyd will take over as chairman of the committee and Andy McKeon will take over as Senior Independent Director from that date. Further information on the composition of the Board can be found on page 45.

The Board believes that the current members have sufficient skills, qualifications and experience to discharge their duties in accordance with the committee's terms of reference and as a committee have competence in the sector within which the Company operates.

All Board members attend each committee meeting. The committee meets with KPMG bi-annually without Executive management present, to discuss matters relating to its remit and any issues relating to the audit. I also meet with the Chief Financial Officer and the Head of Group Internal Audit outside the formal meetings to ensure that any areas for discussion are dealt with on a timely basis.

Committee evaluation

The audit committee undertakes an annual evaluation of its performance and effectiveness. For 2018 an internal questionnaire was used to evaluate the work of the committee as part of the Board evaluation processes. The review concluded that the committee had performed effectively and that the skills and experience of the members remained relevant. However, it was agreed that there would be more focus on personal development in 2019, given the increasing levels of complexity and governance compliance, and that appropriate training would be put in place.

Financial reporting

During the year, the committee reviewed the full year results including the annual report and accounts, the preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the committee considered the work and recommendations of management as well as the report from the external auditor. The committee also reviewed the half year results statement.

We considered the appropriateness of accounting policies, critical accounting judgements and key sources of estimation uncertainty. To do this the committee reviewed information provided by the Chief Financial Officer and reports from the external auditor setting out its views on the accounting treatments and judgements in the 2018 financial statements. In preparing the 2018 financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations, that could have a material effect on the amounts recognised in the financial statements. These estimations are detailed below.

Key sources of estimation uncertainty

In applying the Group's accounting policies various estimates are made in arriving at the amounts recognised in the financial statements. The source of estimation uncertainty at 31 December 2018 that has a significant risk of resulting in a material change to the carrying value of assets and liabilities within the next year is with regard to the accounting for business combinations.

On 31 October 2018 the Group acquired 90% of the share capital of Dovetail Digital Limited. Estimates have been made with regard to determining, and allocating, the fair value of consideration. A computer software intangible asset of £5,032,000 and goodwill of £1,622,000 have been recognised upon acquisition, with a total consideration payable of £5,288,000. Of this consideration payable, £3,512,000 relates to contingent liabilities payable upon the achievement of specified product delivery and revenue targets (with £2,512,000 of this cash settled and £1,000,000 equity settled). The software intangible asset has been valued based on the future cash flows expected to be generated from the sale of the software, with estimates made for future revenues and costs. The key source of estimation uncertainty is with regard to future revenues, with the business still in the early stages of developing its blockchain software technology.

A further financial liability of £2,406,000 has been recognised for the put option in place over the 10% of share capital not owned by the Group. The put option is exercisable in 2026 (provided the Group has not exercised the related call option between 2023 and 2025), on an exercise price based on a multiple of operating profit for the preceding year. Judgement has been exercised in recognising a non-controlling interest, with the Group having applied the present-access method, on the basis that the non-controlling shareholders continue to have present access to the returns associated with their underlying ownership interests.

The committee agrees with the estimates and judgement made, having discussed and reviewed the approach undertaken and methodology adopted both with management and with the auditor. The committee acknowledges that the estimate of the put liability carries the most significant risk of material change in future reporting periods, dependent on the future financial performance of Dovetail Digital.

Another source of estimation uncertainty is with regard to capitalised development costs.

The committee is updated at least twice a year on the carrying value of capitalised development expenditure, including detail on projects underway and projects completed, with the largest carrying values relating to the Group's EMIS Web and ProScript Connect products. The committee is satisfied that an asset is only recognised when the criteria of IAS38 are met, including the demonstration of technical feasibility, the existence of a market and the availability of resources to complete the project. Based on its knowledge of the products, and the markets in which EMIS Group operates, the committee is in agreement with the estimate of useful economic life (UEL) over which capitalised development expenditure is amortised. The UEL is different for each unique product and reviewed every six months for appropriateness. Amortisation is accelerated if there is no longer a market for the product.

Further details are set out in note 2 to the accounts.

The committee reviewed papers from management on going concern assumptions when considering half year and final results statements and on long-term viability when considering the final results statement. This included an assessment of the possible impact of Brexit on the business, as set out in the viability statement on page 75. Internal financial projections and the results of stress testing the financial models were taken into account.

Report of the audit committee continued

External audit

In accordance with its terms of reference, the committee annually reviews the audit requirements of the Group and the effectiveness and independence of the incumbent external auditor prior to any decision to re-appoint.

The committee meets regularly with the external auditor, both with and without management present.

The committee is responsible for ensuring that the independence of the Group's external auditor is not compromised or put at risk of compromise. The committee reviews, challenges and approves both the annual audit plan and output from the audit process as part of assessing the auditor's expertise and performance.

External auditor effectiveness review

The auditor is considered to be effective in the performance of its duties. The committee uses an annual questionnaire-based approach to gather the opinions of key Directors and senior finance management, with findings (and areas for improvement) shared with the auditor. The external auditor regularly provides information relevant to assuring us about its own independence, objectivity and compliance with regulatory and ethical standards.

External auditor effectiveness review

The committee considers that the external auditor has appropriate resources and expertise to conduct the audit.

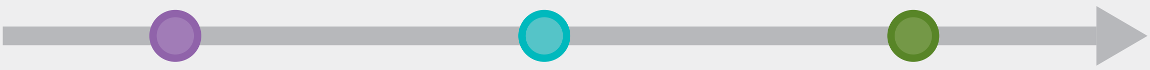
Non-audit services provided by KPMG were reviewed and are not considered to have affected the auditor's independence.

The committee considered there to be an effective audit planning process in place.

The committee also considered the quality of external auditor reporting (including recommendations) to be appropriate.

Auditor rotation timeline

The Company is excluded from the provisions of the EU Audit Directive and Regulation on the grounds that it is AIM quoted. However, we aim to voluntarily meet the regulatory requirements as a matter of good practice. KPMG has been the Group's external auditor since 2013 and, as a result, following the completion of the 2017 audit, the previous engagement partner, John Pass, retired having reached five years in that position. The handover process to his successor Fran Simpson was completed successfully during 2018. Under the EU Audit Directive and Regulation, the Company is not required to put the external audit out to tender until 2023.



2013
KPMG appointed

2018
Partner rotation – Fran Simpson takes over from John Pass after five years

2023
Competitive tender unless specific circumstances require an earlier tender

Provision of non-audit services by the external auditor

The audit committee monitors the nature and extent of non-audit services provided by the external auditor. The committee is consulted prior to engagement of the external auditor for non-audit work and formally approves all non-audit services (all of which are put out to competitive tender). Consideration is given to any perceived threat to independence prior to the procurement of non-audit services from the external auditor, with other external advisers used where appropriate.

A summary analysis of remuneration paid to KPMG for audit and non-audit services during the year ended 31 December 2018 appears in note 6 to the financial statements on page 94. Fees for non-audit services continue to be within the 70% cap of the average audit fees for the preceding three-year period as required by EU audit legislation.

Internal audit

EMIS Group maintains an in-house internal audit function which objectively reviews the Group's internal control processes in accordance with the Audit Charter, which was reviewed and approved by the committee in 2018.

During the year, the committee considered and approved the internal audit strategy including a three-year risk-based audit plan from 2019 through to 2021. Internal audit's resources were increased during 2018, with the addition of two new team members and the establishment of a co-sourced internal audit agreement with Deloitte. This ensures improved audit coverage of technical and specialist areas, such as clinical safety, data privacy and cyber security.

The three-year internal audit plan was formulated utilising input from the Board and committee members, our external auditor, our internal audit co-source partner and using output from the risk management process. The plan remains flexible and includes time for ad hoc investigations and other high risk assurance work as it arises and as agreed by the committee. The audit plan continues to include key risk areas such as cyber security, information governance, clinical safety and contract management, and a range of financial risk areas such as procure-to-pay, payroll, revenue recognition and capital expenditure at locations across the Group including EMIS Health India.

The Head of Group Internal Audit maintains independence through direct access to me, without the need to refer to Executive management. He attends audit committee meetings by invitation and reports to the committee on internal audit, risk management and corporate governance matters. I periodically meet with him without management being present.

Risk management

The committee is responsible for monitoring and developing the effectiveness of sound risk management and internal control systems on behalf of the Board.

The Group has a Board-approved risk management policy and operates a structured risk management process with oversight from the risk management committee, which meets monthly. The committee reviewed minutes and action plans from the risk management committee meetings.

During the year the committee continued to monitor the Group's risk appetite and we oversaw the continued development of a risk management software application to enhance and further embed risk management across the business.

The committee reviewed the Group's principal risks to ensure they are being adequately captured and reported to the Board and that the risk disclosures in the annual report are appropriate.

For full details of the risk management process and risk appetite statements of the Group, see pages 22 and 23.

Effectiveness of internal control arrangements

On behalf of the Board the committee reviews the Group's internal control arrangements, as set out in the corporate governance report, including operational, financial and compliance controls. This review comprises both examination of particular areas of interest and also regular status updates received from senior management and internal audit at each of the committee's meetings.

Areas that have been considered throughout the year and subsequently include the following:

- understanding the nature of the failure of effective operation of controls which resulted in the service level reporting issue;
- reviewing the process improvements and other changes implemented by the business in response to this;
- suitability and effectiveness of core financial systems in place across the Group;
- reviewing the Group's IT-related internal control arrangements and any actions proposed to continue to strengthen this position;
- reviewing the Group's confidential reporting (whistleblowing) arrangements and any matters raised through this process;
- following up on internal control reports and action plans from the Group's external and internal auditors;
- receiving updates and monitoring progress on the status of issues raised in internal audit reports; and
- assessing and validating management representations.

The committee is satisfied that appropriate actions have been taken to remedy any significant weaknesses or failures identified as a result of these or other review processes and has reported such to the Board.

The committee's action plan for 2019

Looking ahead to 2019, the committee's focus will remain on the key audit and assurance areas of the business, and on its oversight of financial and other regulatory requirements. The action plan for 2019 will focus on:

- ensuring a smooth transition to the new chair;
- reviewing and making recommendations in relation to the statutory, preliminary final and interim financial results;
- overseeing of key financial policies and practices;
- assessing the effectiveness of the internal audit function and monitoring its annual plan;
- undertaking a thorough review of the annual report and accounts and ensuring that the narrative messages are consistent and accurately reflect the financial statements and that the information as a whole is fair, balanced and understandable; and
- assessing the appropriateness and effectiveness of the risk management process.

Robin Taylor
Chairman of the audit committee
19 March 2019

Report of the nomination committee

A robust leadership model

Mike O'Leary

Chairman of the nomination committee

DEAR SHAREHOLDER

I am pleased to present our report for the year ended 31 December 2018 which summarises our membership and activities during the year.

2018 MEMBERSHIP AND ATTENDANCE

	Number of meetings attended[1,2]
Mike O'Leary (chairman)	● ● ● ●
Kevin Boyd	● ● ○ ○
Andy McKeon	● ● ● ●
Robin Taylor	● ● ● ●
David Sides	● ● ● ●

1 There were three scheduled committee meetings and one ad hoc.

2 Kevin Boyd was absent from one scheduled meeting due to illness.

- Other regular attendees are the Chief Executive Officer, Chief Financial Officer and the Company Secretary.
- The committee meets at least twice a year; it met four times in 2018.
- All committee members were considered independent upon their appointment.
- The committee chairman provided a verbal update to the Board following each committee meeting.
- Non-executive Directors are appointed by a letter of appointment and details of their terms and those of the Executive Directors are set out on pages 65 to 67.

KEY RESPONSIBILITIES

The committee reviews its terms of reference on an annual basis. These describe the committee's responsibilities in detail and they are available on the Group's website.

The committee is responsible for:

- ensuring that the balance of Directors on the Board remains appropriate as the Group develops to ensure that the business can compete effectively in the marketplace;
- identifying and nominating candidates to fill Board vacancies as and when they arise;
- evaluation of the balance of skills, knowledge, experience and diversity of the Board to ensure the optimum mix; and
- consideration of the succession planning for Directors and senior managers to ensure that there is a pipeline of high calibre candidates and that succession is managed smoothly.

Key activities in 2018	
Succession planning	• Review of succession plans for Executive Directors, GXT and critical positions.
Board and committee composition	• Review of Board and committee composition and in particular the skills and experience required for new Non-executive Directors to replace Robin Taylor in 2019 and Mike O'Leary in 2020.
Governance	• Reviewed the committee's terms of reference. • Reviewed the time commitment required for Non-executive Directors. • Carried out an internal committee evaluation.

The nomination committee continues its focus on Board composition and succession planning, including a review of the skills and experience needed to ensure a robust and sustainable leadership model for the Board, its committees and the wider management team.

The nomination committee plays a vital role in ensuring the effectiveness of the Board and its ability to deliver long-term success for the business, including having the appropriate balance of skills, experience and knowledge on the Board to both reflect the changing needs of the business and anticipate and prepare for the future.

The committee understands the importance of a diverse Board and is mindful of the issue of Board diversity in its succession plans but it also acknowledges the importance of ensuring that the selection of Directors and, in a wider context, employees throughout the Group, should be based upon a range of factors including skills, experience, qualifications, background and values. Accordingly, all vacancies are filled taking into account these wider factors and are not based to a disproportionate extent on any one factor such as gender or ethnicity. Notwithstanding this, there remains a strong commitment to improving diversity within the Board and this will be taken into account as part of any future Board appointment process.

Robin Taylor will retire from the Board at the AGM on 8 May 2019 after nine years of service. The committee has considered the skills and expertise required to fill a Non-executive Director role and has engaged executive search and leadership consulting firm Spencer Stuart to assist with the recruitment. Andy McKeon will take on the role of Senior Independent Director and Kevin Boyd will take on the role of chair of the audit committee upon Robin's retirement. I will be retiring at the AGM in 2020 and succession planning for my replacement has been discussed. The recruitment process will commence later in 2019.

An evaluation of the committee's own performance and terms of reference was carried out during the year. A questionnaire sent to each Director on the performance of the nomination committee concluded that specific tasks were handled both appropriately and in a timely manner.

Terms of reference for this committee are agreed to be appropriate and the Board is satisfied that the committee is adequately resourced to allow these to be met.

Mike O'Leary
Chairman of the nomination committee
19 March 2019

Committed to best practice

Andy McKeon

Chairman of the remuneration committee

DEAR SHAREHOLDER

On behalf of the Board I am pleased to present the Directors' remuneration report for the year ended 31 December 2018.

2018 MEMBERSHIP AND ATTENDANCE

	Number of meetings attended[1]
Andy McKeon (chairman)	● ● ● ● ● ● ●
Mike O'Leary	● ● ● ● ● ● ●
Kevin Boyd	● ● ● ● ● ○ ○
Robin Taylor	● ● ● ● ● ● ●
David Sides	● ● ● ● ● ● ○

1 There were four scheduled committee meetings, the remainder were ad hoc. Kevin Boyd was absent from one scheduled meeting due to illness.

- Other regular attendees on invitation include the Chief Executive Officer, Chief Financial Officer, Group HR Director and the Company Secretary.
- Representatives from Deloitte, our principal external adviser, attend on invitation.
- The committee meets at least twice a year or as necessary; it met seven times in 2018.
- All committee members were considered independent upon their appointment.

KEY RESPONSIBILITIES

The committee is responsible for:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chief Executive Officer and Chief Financial Officer (together "the Executive Directors"), the Chairman of the Board and other members of the executive management team;
- determining the policy for, and scope of, pension and benefits arrangements for each Executive Director and other senior executives;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Group and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders and determining each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to Executive Directors and other senior executives and the performance targets to be used;
- oversight of overall remuneration issues for the Group, including gender pay reporting; and
- reviewing annually its terms of reference describing the committee's responsibilities in detail, which is available on the Group's website.

This report is split into three sections: my report; the remuneration policy; and the annual report on remuneration.

The annual report sets out the remuneration paid to Directors in 2018 including bonus payments and long-term incentives and also includes the detail on what we intend for remuneration in 2019, including some consequential changes to our remuneration policy.

The Company is quoted on AIM, and from September 2018 was required to disclose details of the recognised corporate governance code against which we are reporting. We adopt the UK Corporate Governance Code ("the Code") and will be reviewing how the new Code, applicable to EMIS Group for the year commencing 1 January 2019, will impact our remuneration pay and practices and we will provide further detail in our 2019 Directors' remuneration report.

The committee remains committed to continuing development of best practice, where appropriate, in the remuneration policy and has clearly defined terms of reference which are reviewed annually by the committee. These are available on the website at www.emisgroupplc.com/investors.

The remuneration report will be presented at the AGM on 8 May 2019 by way of an advisory vote.

Corporate performance

As outlined in the strategic report on pages 1 to 4, EMIS Group reported a solid financial performance in 2018, delivering an increase in adjusted operating profit of 1% and a similar increase in adjusted earnings per share. Overall, trading for the year was in line with the Board's expectations with an increase in the Group's rate of revenue growth compared with recent years.

The Group's revenue visibility, order book and pipeline remained strong, with the Group maintaining a high level of recurring revenue in the period.

The committee has taken into consideration the overall performance of the Group when determining remuneration matters for 2018 and 2019.

Remuneration for 2018

As in previous years, Executive Directors were eligible to receive a bonus depending on the level of Group adjusted profit achieved. Performance targets were stretching and based on the financial performance of the Group. Performance was marginally ahead of on-target levels and the remuneration committee therefore approved the payment of bonuses of 58.8% of salary to Andy Thorburn and to Peter Southby.

Under our remuneration policy our maximum bonus opportunity is 150% of salary. Historically this has been set at 100% of bonus and for 2019 will continue to be the case. However, in recognition of the exceptional circumstances which faced the business in 2018 the committee determined that the overall bonus opportunity would be set at 150% with the additional 50% being directly based upon resolving the failures in service level agreement reporting which were reported in the 2017 annual report and accounts. These failures were the result of shortcomings in detailed operational activities and were identified by Andy Thorburn shortly after he became Chief Executive Officer. The key performance measures were linked to recovering the operational position on our service level agreement with NHSD, which has been achieved, and reaching a satisfactory financial settlement with NHSD, which was achieved within the provision originally set. In the event, bonuses of 49.8% of salary were awarded for this additional element.

LTIP awards were granted during the year and further to major shareholder consultation, awards were granted to the value of 200% of base salary for Andy Thorburn and 125% of base salary for Peter Southby which will vest in three years' time, subject to the satisfaction of performance conditions.

The 2016 LTIP performance conditions were not met and therefore these awards will not vest.

Further details about the variable pay awards are set out in the Directors' remuneration report on pages 61 to 71.

Key activities in 2018	
Directors' remuneration	• Evaluated Directors' remuneration. • Reviewed the 2017 Directors' remuneration report prior to its approval by the Board and subsequent approval by shareholders at the 2018 AGM. • Consideration of 2019 remuneration arrangements.
Executive remuneration	• Reviewed the Executive Team remuneration packages and wider remuneration across the Group with the aim of recognising best practice, aligning with shareholder objectives and encouraging behaviours to maintain the long-term success of the business. • Reviewed Group performance against the 2017 annual bonus plan performance and reviewed metrics to apply to the 2018 bonus plan. • Reviewed LTIP criteria and approved the 2018 awards after consultation with major shareholders. • Reviewed performance for LTIP awards granted in 2015.
Human resources and policy	• Reviewed the GPG analysis.
Governance	• Reviewed the committee's terms of reference. • Carried out an internal committee evaluation.

Report of the remuneration committee continued

Implementation of policy for 2019

An average 2% salary increase has been given to the wider workforce and at the senior management level, salary increases have been limited (on average below 2%). Across the Company, at all levels, an enhanced benefits package has been provided including a 0.5% employer pension contribution increase for the majority.

Andy Thorburn declined a pay increase for 2019. Peter Southby was awarded an increase of 4.4%. Bonus levels for both individuals have been set at 100% of base salary and pension arrangements are unchanged.

The committee has given considerable thought to how longer-term incentives can best support the implementation of the Group's strategy which was launched at a Capital Markets Day in November. Several alternatives have been considered and major shareholders consulted. The aims have been to fairly reward senior management, incentivise them appropriately to achieve above double-digit earnings growth and secure the retention of key individuals.

Exceptionally, therefore, the committee intends to grant two additional LTIPs awards in 2019: one to vest in four years and one to vest in five years; both are subject to performance measures linked to achieving double-digit growth in EPS over the respective performance periods. Usual annual awards which vest in three years will continue to be granted in 2019, 2020, 2021 and 2022 at 150% of salary for Andy Thorburn and 100% for Peter Southby. Performance targets for these future awards will be determined prior to grant. It is not intended to grant any further additional awards during this period. Further details of the proposed 2019 awards are set out on page 71.

Similar incentive arrangements to those for the Executive Directors will also be granted for senior management. The committee recognises that the success of the strategy will not be solely the work of senior management, notwithstanding the significant responsibilities, control and influence which they hold. We are therefore considering what additional arrangements should be put in place to reward staff generally if the targeted higher levels of growth are achieved.

The exceptional longer-term awards the committee proposes to make in 2019 would fall outside the remuneration policy which was approved by an advisory vote in 2017. We are therefore proposing to make suitable amendments to the policy. As mentioned above we will be conducting a full review of our policy against the new Code during 2019, taking into account how practice is developing, for example in relation to post-employment shareholding requirements. We consider it right, therefore, not to make any changes to our remuneration policy in respect of the new Code until practice is generally clearer.

During the year a review of Chairman and Non-executive fees was undertaken. Changes were implemented to address the increasing time commitments for the Chairman and the chairs of the audit and remuneration committees and the imbalance against market practice. Details of the changes which will be implemented over two years from 2019 to 2020 are set out on page 71.

Gender pay reporting

Information on the gender pay gap for 2017 was published in 2018 and showed a mean gap of 17.6% for EMIS Group, which is similar to the national average mean gap of 17.4%. After an analysis of the data, improvement plans were implemented which included the establishment of a women's network, an enhanced maternity/adoption policy and an improved flexible working policy. 2018 data has just been published showing a drop of the mean gap to 16.9% year on year. Work is now underway to agree plans for the next year to reduce the GPG further.

Committee effectiveness

An annual effectiveness review was carried out and the outcome was discussed. It was concluded that the committee continued to operate effectively, with certain specific operational actions which will be addressed in 2019.

On behalf of the committee I hope that you will support the resolution to be presented at the AGM in May 2019.

Andy McKeon
Chairman of the remuneration committee
19 March 2019

The remuneration policy aims to ensure that members of the Board and Executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contribution to the success of the Group. The policy outlined on pages 61 to 63 will apply from 8 May 2019.

Policy table

The policy table below summarises the key components of remuneration for Executive Directors:

Element	Operation	Opportunity	Performance metrics
Base salary			
To recognise the individual's skills and experience and provide a competitive base reward to attract and retain Executive Directors.	Base salaries are usually reviewed annually, taking into account the individual's performance, responsibility, skills and experience; Group performance and market conditions; salary levels for similar roles at relevant comparators (including companies of a similar size and sector); and pay levels and percentage salary increases across the wider employee population. There is no set maximum. Any changes usually take effect from 1 January each year.	While there is no maximum salary, any increase will typically be in line with those awarded to the wider employee population. The committee has discretion to award higher increases in circumstances that it considers appropriate, such as: • a material change in the size or complexity of the business or responsibility of the role; • development in the role; • changes in market practice; and • moving the salary of a newly appointed Executive Director to be aligned with a market competitive range over time. Details of salary changes will be disclosed in the annual report for the relevant year.	None.
Pension			
To provide a market competitive retirement benefit.	The Group makes contributions to the private pension schemes or other appropriate arrangements for the Executive Directors. The committee has discretion to authorise cash payments in lieu of pension contribution. Such a payment would not count for bonus or LTIP purposes.	Executive Directors receive a contribution or cash payment in lieu of up to 15% of salary.	None.
Share Incentive Plan (SIP)			
To provide market competitive benefits.	Open to all UK tax resident employees of participating Group companies with at least one year's service. Executive Directors are eligible to participate. The plan is an HMRC tax qualifying plan that allows an employee to purchase shares using gross pay. If an employee agrees to purchase shares, the Company matches purchased shares with an award of matching shares which are subject to continued employment for three years. Dividends accrue on purchased shares and matching shares.	Participants can purchase shares up to the limits allowed by the legislation from time to time (currently up to £1,800 per tax year). Matching shares may be awarded up to the limits allowed by the legislation from time to time. The Company currently offers to match purchases made through the plan at the rate of one free matching share for every three shares purchased.	None.

Directors' remuneration report continued

Directors' remuneration policy continued

Policy table continued

Element	Operation	Opportunity	Performance metrics
Benefits			
To provide market competitive benefits.	Benefits may include, but are not limited to, a car allowance and life insurance. In certain circumstances, the committee may also approve the provision of additional allowances relating to the relocation of an Executive Director and other expatriate benefits to perform his or her role.	While no maximum level of benefits has been set, the value of benefits provided is set at a level which the committee considers to be appropriately positioned taking into account the role and individual circumstances; benefits provided are reviewed periodically. Benefits in respect of the year under review are disclosed in the annual report on remuneration.	None.
Annual bonus			
To provide an incentive to drive the Executive Directors to deliver stretching performance and growth.	Performance measures, targets and weightings are set by the committee at the start of the bonus period. At the end of each bonus period, the committee determines the extent to which targets have been achieved. The committee has the discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards to ensure that payments accurately reflect business performance over the performance period, e.g. in the event of unforeseen circumstances outside of management control. At the discretion of the committee, Executive Directors may be required to invest up to 40% of any after tax amount in shares, to be held until the minimum shareholding requirement is met. Bonuses are subject to clawback as described on page 64.	For Executive Directors, the maximum annual bonus opportunity is up to 150% of base salary. No bonus is payable until target performance is achieved. For target performance, the bonus level is up to 50% of the maximum payable for that year.	Performance is usually assessed on an annual basis, using a combination of the Group's main KPIs for the year. Measures may include financial and non-financial metrics as well as the achievement of personal objectives. A minimum of 80% of the bonus will be determined by financial objectives. The financial performance measure currently applied is Group adjusted profit; however, the committee has the discretion to adjust the performance measures and weightings to ensure that they continue to be linked to the delivery of Group strategy. The range of performance required under each measure is calibrated with reference to external expectations and the Group's internal budgets. Any individual element is based on the strength of the Executive's personal performance over the course of the year.

Element	Operation	Opportunity	Performance metrics
Long-Term Incentive Plan (LTIP)			
To drive sustained long-term business performance, aid retention and align the interests of Executive Directors with shareholders.	Awards are made in the form of conditional share awards, or nil-cost options which vest subject to the achievement of pre-defined performance conditions normally measured over a three-year period. At the start of each performance period, the committee reviews award levels and performance conditions to ensure they remain appropriate and sets performance targets which it considers to be appropriately stretching. Following the end of the performance period, and the vesting of any awards, a two year "holding period" applies. This may be structured as either: (1) a requirement that the Executive Directors are normally required to hold for the holding period the shares they acquire, subject to being permitted to dispose of shares to meet any resultant tax liability; or (2) that the Executive Directors are not normally entitled to acquire the vested shares until the end of the holding period. Where the holding period is operated on the latter basis, the committee may make an additional payment (in cash or additional shares) in respect of shares that vest to reflect the value of dividends which would have been paid on those shares during the period beginning with the date of vesting and ending with the date on which the shares may be acquired (and this payment may assume that the dividends were reinvested in additional shares on such basis as the committee may determine) Where awards vest over a longer period than three years, the holding period will be reduced so that the maximum period between an award and the right to dispose of shares will be five years. During the holding period the shares are not subject to performance conditions. LTIP awards are subject to clawback as described below this table.	Ordinarily a single award of up to 200% of base salary which normally vests after three years may be awarded. In respect of 2019, this award will be 150% of salary for the Chief Executive Officer and 100% for the Chief Financial Officer. In 2019 two additional exceptional awards will be made with performance measured over a four and five-year period. Each exceptional award will not be greater than 200% of salary for the Chief Executive Officer and 125% for the Chief Financial Officer. Each year the committee determines the maximum LTIP opportunity, the measurement period and the threshold level. Threshold performance will result in up to 25% of maximum vesting for the period set, rising to full vesting for maximum levels of performance in accordance with the progression set by the committee for the period in question.	Awards vest subject to performance measure(s) based on key financial metrics which may include, for example, measures based on EPS and growth in share price. The committee has discretion to adjust the performance measures and weightings to ensure that they continue to be linked to the delivery of Group strategy. The committee has the discretion to adjust the formulaic LTIP outcomes to ensure that payments accurately reflect business performance over the performance period.

Notes to the policy table

Performance measurement selection

The aim of the bonus plan is to reward key Executives over and above base salary for the achievement of business objectives. The bonus criteria are selected annually to reflect the Group's main KPIs for the year and are designed to encourage continuous performance improvement for the Group. Group financial performance targets relating to the bonus plan are set from the Group's annual budget, which is reviewed and signed off by the Group Board. Adjusted profit is currently used as the main KPI for the annual bonus plan because it is a clear measure of the underlying financial performance of the Group.

Directors' remuneration report continued

Directors' remuneration policy continued

Notes to the policy table continued

Performance measurement selection continued

LTIP awards granted prior to 2017 vest based solely on EPS growth over three years. EPS was selected as it is a key measure of long-term performance for the Group and is closely aligned with the Group's strategic plans and with the profit attributable to shareholders. LTIP awards granted from 2017 onwards vest based on EPS growth and TSR performance over three years. This change followed shareholder consultation with the committee deciding to introduce a relative TSR measure alongside EPS, considering that two measures, rather than one, would give a better all-round view of performance. For the LTIP, performance measures and targets are reviewed by the committee ahead of each grant and must be considered by the committee to be challenging but achievable.

Targets applying to the bonus and LTIP are reviewed regularly, based on a number of internal and external reference points. Performance targets are set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year.

The committee retains the ability to adjust performance measures or targets if events occur (such as a change in Group strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the committee to determine that measures are no longer appropriate and that an amendment is required so that they achieve their original purpose.

Awards under the LTIP and deferred share awards may be adjusted in the event of a variation of the Company's share capital or other relevant events in accordance with the terms of the awards.

Malus and clawback provisions

Clawback applies if the figures on which awards were based are shown to be inaccurate or there is misconduct by the individual or action which has damaged EMIS Group's reputation or, in the case of LTIPs, if there is significant deterioration in financial performance. These provisions apply for one year after the award of a bonus and up to two years following LTIP vesting.

Remuneration policy for other employees

The approach to annual salary reviews is consistent across the Group, with consideration given to individual performance, skills, experience and responsibility, Group performance and market conditions, and salary levels for similar roles in relevant comparators. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate. A senior management group of approximately 50 individuals is eligible to participate in the LTIP. Performance conditions are consistent for all participants, while award sizes vary by organisational level. Specific cash incentives are also in place to motivate, reward and retain staff below Board level. All UK-based employees are eligible to participate in the Company's SIP scheme on the same terms.

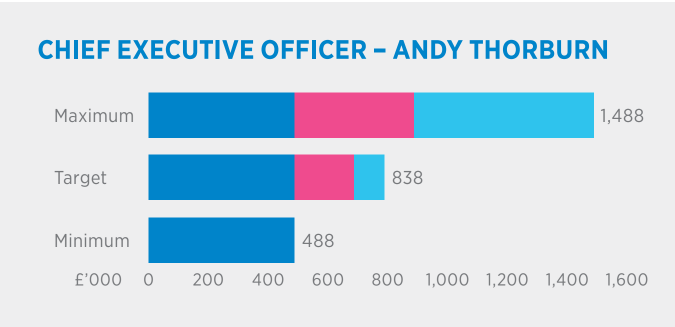
Shareholding guidelines

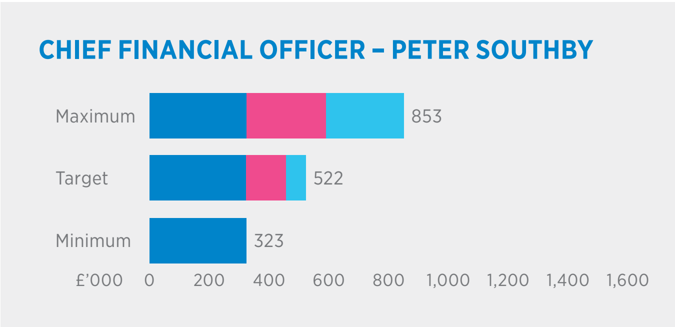
The committee continues to recognise the importance of Executive Directors aligning their interests with shareholders through building up a significant shareholding in the Company. Shareholding guidelines are in place requiring Executive Directors to acquire a minimum holding, equivalent to 200% of base salary for the Chief Executive Officer and 100% of base salary for the Chief Financial Officer. A Director is only permitted to dispose of shares if it does not take the holding below the relevant minimum level or if the disposal was to meet a tax or other liability created by the vesting of a share award. Different shareholding requirements may be set for any newly appointed Executive Director.

Shares, and shares subject to vested awards (for example, LTIP awards which remain subject to a "holding period" and nil-cost options which are exercisable but which remain unexercised, count towards the shareholding requirement on a net of assumed tax basis. Executive Directors are required to retain shares acquired under the LTIP (subject to sales to cover tax liabilities) until they have satisfied the guideline.

Pay scenario charts for Executive Directors

The charts below provide estimates of the potential future reward opportunity for each of the two current Executive Directors for 2019 and the potential split between different elements of remuneration under three different scenarios: "Minimum", "Target" and "Maximum" performance.





— Basic salary and benefits — Bonus — Long-term incentives

The additional reward opportunity taking into consideration the exceptional one-off LTIP awards to be awarded would be:

Andy Thorburn

200% of base salary for maximum for both the four-year and five-year vesting award.

Peter Southby

100% of base salary for maximum for the four-year vesting award, and 125% of base salary for maximum for the five-year vesting award.

Potential reward opportunities illustrated on page 64 are based on the remuneration policy, applied to the base salary as at 1 January 2019. LTIP awards granted in a year normally vest following the end of a three-year performance period and the projected value of LTIP amounts excludes the impact of share price movement over the vesting period. All other elements of actual pay delivered, however, will be influenced by the following factors:

	Component	"Minimum"	"Target"	"Maximum"
Fixed	Base salary	Latest known salary		
	Pension	Contribution rate applied to latest known salary		
	Other benefits	Benefits as provided in the single figure table on page 68		
Annual bonus		No bonus payable	50%	100%
LTIP		No LTIP vesting	25%	150%[1]

1 150% applies to Andy Thorburn only. Maximum of 100% LTIP for Peter Southby.

2 Two additional LTIP awards are proposed for Andy Thorburn and Peter Southby in 2019. One will vest in four years and one in five. Neither would be triggered if only 'target' level of performance is achieved under the three-year LTIP. The value of each award as defined above would be 200% of base salary for Andy Thorburn and 111% of base salary for the four-year vesting award and 125% of base salary for the five-year vesting award for Peter Southby.

Approach to recruitment remuneration – Executive Directors

When hiring or appointing a new Executive Director, the committee may make use of any or all of the existing components of remuneration, as follows:

Component	Approach	Maximum value
Base salary	The base salaries of new appointees will be determined by reference to the individual's role, responsibilities, experience and skills, relevant market data, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market rate, any shortfall may be managed with phased increases over a period of years subject to their development in the role.	Not applicable.
Pension	New appointees will be eligible to receive a pension contribution in line with existing policy.	
SIP	New appointees will be eligible to participate in the Company's HMRC tax qualifying all-employee share scheme, in line with the policy.	
Benefits	New appointees will be eligible to receive benefits in line with the policy.	
Annual bonus	The annual bonus described in the policy table including maximum values, will apply to new appointees with the relevant maximum ordinarily being pro-rated to reflect the proportion of employment over the bonus period. Targets for the individual element will be tailored to the Executive.	Up to 150% of salary p.a.
LTIP	New appointees will be eligible for awards under the LTIP which will normally be on the same terms as awards made to other Executive Directors, including maximum values, as described in the policy table.	The maximum permitted under the policy table, provided that any quantum available under the policy table in respect of exceptional awards to be made in 2019, may be made in the year of appointment or following year in the case of a new appointee.

In determining appropriate remuneration for a new Executive Director, the committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that the pay arrangements are in the best interests of the Group and its shareholders.

The committee may include additional elements of pay which it considers appropriate in circumstances which may include: interim appointments; Non-executive Directors taking on an executive function on a short-term basis; and where the timing of the recruitment means that it would be inappropriate to provide a bonus or LTIP opportunity for the year, in which case the quantum in respect of the opportunity for the year of recruitment may be transferred to the subsequent year in order that reward is provided on a fair and appropriate basis. However, the committee's discretion is not uncapped. As noted above, salary, pension and benefits will be provided in line with the existing policy and non-performance-related incentives (such as a "golden hello") will not be offered. The committee may alter the performance measures and vesting periods of incentive remuneration and the deferral arrangements for the bonus or holding period for the LTIP to reflect the circumstances of the recruitment. The rationale for any exercise of this discretion will be explained in the following Directors' remuneration report.

In addition to the above elements of remuneration, the committee may consider it appropriate to grant an award under a different structure in order to facilitate the recruitment of an individual, to replace remuneration and/or incentive arrangements forfeited on leaving a previous employer.

Any "buyout awards" would typically have a fair value no higher than that of the awards forfeited. In doing so, the committee will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. Such awards would typically be subject to clawback.

In the event of the appointment of a new Executive Director by way of internal promotion, the remuneration committee will be consistent with the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements.

Directors' remuneration report continued

Directors' remuneration policy continued

Approach to recruitment remuneration – Executive Directors continued

External appointments

It is the Board's policy to allow each Executive Director to take up one Non-executive position on the board of another company, subject to the prior approval of the Board. Any fee earned in relation to outside appointments is retained by the Executive Director. No such positions were taken and so no such fees were paid during the financial year.

Service contracts

The Executive Directors are employed under contracts of employment with the Group. Executive Directors' contracts are available to view at the Company's Registered Office. The principal terms of the Executive Directors' service contracts are as follows:

			Notice period	
Executive Director	Position	Effective date of contract	From Company	From Director
Andy Thorburn	Chief Executive Officer	1 May 2017	Twelve months	Twelve months
Peter Southby	Chief Financial Officer	1 October 2012	Twelve months	Twelve months

Remuneration policy for the Chairman and the Non-executive Directors

The Board determines the remuneration policy and level of fees for the Non-executive Directors, within the limits set out in the Articles of Association. The remuneration committee recommends the remuneration policy and level of fees for the Chairman of the Board.

The policy table below summarises the key components of remuneration for the Chairman and Non-executive Directors.

Element	Operation	Opportunity	Performance metrics
Fees			
To reflect market competitive rates for the role, as well as individual performance and contribution.	The Chairman and Non-executive Directors receive a basic fee for their respective roles. Additional fees may be paid to Non-executive Directors for additional services such as chairing a Board committee or acting as the Senior Independent Non-executive Director. Expenses related to the Non-executive's duties, such as travel and accommodation or secretarial support, may also be reimbursed. Fees are reviewed annually with reference to information provided by remuneration surveys, the extent of the duties performed, time commitment, and the size and complexity of the Group. Fee levels are benchmarked against sector comparators and appropriate listed companies of similar size and complexity.	Fee increases are applied in line with the outcome of the annual review. Fees for the year commencing 1 January 2019 are set out in the annual report on remuneration. There is no prescribed maximum fee. It is expected that increases to Non-executive Director fee levels will be in line with salaried employees over the life of the policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.	None.

Non-executive Directors' remuneration

In the case of hiring or appointing a new Non-executive Director, the committee will follow the policy as set out in the table above. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for additional services, such as chairing a Board committee.

Non-executive Directors' service contracts

Letters of appointment are provided to the Chairman and Non-executive Directors. Non-executive Directors have letters of appointment effective for a period of three years and are subject to annual re-election at the AGM. Non-executive Directors' letters of appointment are available to view at the Company's Registered Office.

Non-executive Directors' letters of appointment and the unexpired period of their appointments (where appropriate after extension by re-appointment) are set out below:

Non-executive Director	Date of first appointment	Date of last appointment	Unexpired term as at 31 December 2018	Notice period
Mike O'Leary	17 March 2011	17 March 2017	1 year 2 months	3 months
Robin Taylor	1 March 2010	24 March 2017	Retiring at the 2019 AGM	3 months
Kevin Boyd	9 May 2014	9 May 2017	1 year 4 months	3 months
Andy McKeon[1]	30 September 2015	30 September 2018	2 years 8 months	3 months
David Sides	1 January 2017	—	1 year	3 months

1 Having previously served on the Board between February 2013 and April 2015.

Exit payment policy

The Company's policy is to limit any payment made to a departing Director to contractual arrangements and to honour any pre-established commitments. A payment in lieu of notice (consisting of salary, benefits and pension contributions for the relevant portion of the notice period) may be made. As part of this process, the committee will take into consideration the Executive Director's duty to mitigate their loss.

The table below summarises how the awards under the bonus scheme and LTIP are typically treated in different leaver scenarios and a change of control. Whilst the committee retains overall discretion on determining "good leaver" status, it typically defines a "good leaver" in circumstances such as retirement with the consent of the Company, ill health, disability, death, redundancy, or any other reason as the committee decides. Final treatment is subject to the committee's discretion. The holding period that applies to vested LTIP awards ceases when an individual leaves.

Reason for leaving	Timing of vesting	Treatment of awards
Annual bonus		
"Good leaver"	Usually paid at the same time as continuing employees. Pro-rata payments may also be made early on compassionate grounds to a "good leaver".	Eligible for an award to the extent that performance targets are satisfied and the award is pro-rated for the proportion of the financial year served.
"Bad leaver"	No annual bonus payable.	Not applicable.
Change of control	Paid immediately on the effective date of change of control.	Eligible for an award to the extent that performance targets are satisfied up to the change of control and the award is pro-rated for the proportion of the financial year served to the effective date of change of control.
LTIP		
"Good leaver" – awards which are still subject to performance conditions	Continue until the normal vesting date or vest immediately, at the discretion of the committee. In the event of the death of a participant, the award would vest immediately.	Outstanding awards vest to the extent the performance conditions are reasonably considered to be likely to be satisfied and the awards are pro-rated to reflect the length of the performance period served unless the Board decides otherwise. In the event of the death of a participant during the performance period, the award would usually vest in full.
"Bad leaver"	Outstanding awards are forfeited.	Not applicable.
Change of control	Vest immediately on the effective date of change of control.	Outstanding awards vest subject to the satisfaction of performance conditions as at the effective date of change of control, and the award is pro-rated for the proportion of the performance period served to the effective date of change of control unless the Board decides otherwise.

Directors' remuneration report continued

Annual report on remuneration

The following section provides details of how the remuneration policy was implemented during the financial year ending 31 December 2018.

Remuneration committee membership in 2018

The members of the committee and their attendance record at meetings during the year are set out on page 58.

During the year, the committee sought internal support from the Chief Executive Officer, the Chief Financial Officer and the Group HR Director, who attend committee meetings by invitation from the Chairman, to advise on specific questions raised by the committee and on matters relating to the performance and remuneration of senior managers where it was considered that their attendance would make a significant contribution. None of these officers were present for any discussions that related directly to their own remuneration. The Company Secretary attended each meeting as Secretary to the committee.

Independent advice

In undertaking its responsibilities, the committee seeks independent external advice as necessary. Since 2016 Deloitte has acted as the principal external adviser to the committee. Deloitte is available to provide independent advice on a wide range of remuneration matters including current market practice, benchmarking of executive pay, LTIP performance measures, the remuneration policy and incentive scheme design. Deloitte is also retained as tax adviser to the Group and is subject to periodic performance evaluation in common with other advisers to the Group.

The committee is satisfied that the Deloitte team provides independent remuneration advice to the committee. Deloitte is a member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com.

Summary of shareholder voting at the 2018 AGM

There was an advisory vote on the remuneration report at the AGM in 2018. Of the 45,757,445 votes cast, 45,697,800 (99.87%) of the votes were for the resolution, with 59,645 (0.13%) against and 4,166 votes withheld.

The results of the votes were published on the website after the meeting.

Single total figure of remuneration for Executive Directors – audited

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2018 and the prior year:

	Andy Thorburn[5] £'000		Peter Southby £'000	
	2018	2017	**2018**	2017
Base salary	**400**	288	**254**	254
Taxable benefits[1]	**28**	30	**18**	18
Pension[2]	**60**	40	**38**	38
Annual bonus[3]	**434**	—	**275**	—
Share schemes[4]	**—**	—	**1**	1
Total	**922**	358	**586**	311

1 Taxable benefits consist primarily of a car allowance or company car and private fuel benefit plus private medical insurance, business travel and subsistence (where taxable).

2 During the year the Executive Directors received 15% of base salary as employer contributions. At the request of Peter Southby £28,000 of employer pension contributions was commuted to a cash payment in accordance with the remuneration policy.

3 This is the total bonus earned in respect of performance during the relevant year. Annual bonuses are received in cash. Further details of annual bonus awards for 2018 can be found in the annual report on remuneration on page 69.

4 The amounts shown reflect the value of matching shares awarded under the SIP. No LTIP awards vested or were exercised during either year.

5 Andy Thorburn was appointed to the Board on 1 May 2017.

Single total figure of remuneration for Non-executive Directors – audited

The table below sets out a single figure for the total remuneration received by each Non-executive Director for the year ended 31 December 2018 and the prior year:

	Base fee £'000		Committee chairmanship fees £'000		Total £'000	
	2018	2017	**2018**	2017	**2018**	2017
Mike O'Leary	**85**	85	**5**	5	**90**	90
Robin Taylor	**40**	40	**5**	5	**45**	45
Andy McKeon	**40**	40	**5**	5	**45**	45
Kevin Boyd	**40**	40	**—**	—	**40**	40
David Sides	**40**	40	**—**	—	**40**	40

Incentive outcomes for the year ended 31 December 2018

Bonus

During the year ended 31 December 2018, Executive Directors were eligible to receive a bonus of up to 100% of salary, depending on the level of Group adjusted profit achieved. Target performance was calibrated to deliver a bonus of 50% of maximum, with no payment for below threshold performance. Bonuses are paid entirely in cash and are subject to clawback. Corporate targets set by the committee require Executive Directors to deliver significant stretch performance to achieve maximum bonus.

The targets set for 2018 were as follows:

- 0% of salary if the Group adjusted profit was below £37.1m;
- 50% of salary if the Group adjusted profit was or exceeded £37.1m; and
- if the Group adjusted profit was greater than £37.1m then the bonus would increase pro rata to Group adjusted profit up to a maximum of 100% at £40.0m.

As the reported Group adjusted profit for the year was £37.6m, the committee determined that a bonus of 58.8% of salary was achieved under this incentive.

In recognition of the exceptional circumstances which faced the business in 2018 the committee determined that the overall bonus opportunity would be set at 150% of salary with the additional 50% being directly based upon resolving the failures in service level agreement reporting which were reported in the 2017 annual report and accounts. The key performance measures were linked to recovering the operational position on our service level agreement with NHSD, which has been achieved, and reaching a satisfactory financial settlement with NHSD, which was achieved within the provision originally set. In the event, bonuses of 49.8% of salary were awarded in respect of this element.

Accordingly, total bonus award in the year was 108.6% of salary for both Executive Directors.

Long-term incentive awards vesting and exercised

The performance target for the 26 April 2016 LTIP award, based on EPS growth over the three years to 31 December 2018, has not been met and this award will therefore not vest on its third anniversary. No LTIP awards vested or were exercised during the year.

Scheme interests awarded in 2018

Long Term Incentive Plan

In 2018, the following awards were granted under the LTIP:

Executive Director	Date of grant	Awards made during the year	Market price at date of award	Normal vesting date	Face value at date of award
Andy Thorburn	6 November 2018	93,786	909p	20 April 2021	£852,515
Peter Southby	6 November 2018	37,184	909p	20 April 2021	£338,003

The number of shares granted was linked to an earlier share price consistent with the annual award granted in April to senior management but which for Executive Directors had to be postponed for corporate governance reasons. The annual award granted on 20 April 2018 was based on a share price of £8.53, which would have resulted in face value of award of £799,995 for Andy Thorburn and of £317,180 for Peter Southby equivalent to 200% and 125% of salary respectively.

Performance conditions for 2018 awards

Awards granted in 2018 include two performance targets. 80% of the award is subject to a performance target based on the Company's compound annual earnings per share growth (EPS) and 20% of the award is subject to a performance target comparing the Company's total shareholder return (TSR) against the FTSE SmallCap. Both performance targets are measured over three financial years 2018–2020.

Performance level	EPS growth	% award to vest	TSR	% award to vest
Below base target	Below 3% p.a.	0%	Below median	0%
Base target	3% p.a.	20%	Equal to median	5%
Maximum target	10% p.a.	80%	Upper quartile	20%

To the extent that base target is exceeded, the percentage of award shares vesting increases pro rata between the base target and maximum target.

SIP awards

During the year under review, Peter Southby was awarded matching shares under the SIP as a result of his own personal contributions in acquiring partnership shares. The value of these was less than £1,000. There were no performance conditions attached to the SIP awards. Peter Southby participates in the SIP to the maximum extent permitted by the HMRC. The Company offers one matching share for every three partnership shares purchased by employees.

Ad hoc payments

There were no ad hoc payments to any Directors for the year ended 31 December 2018.

Payments to past Directors

There were no payments to past Directors for the year ended 31 December 2018.

Directors' remuneration report continued

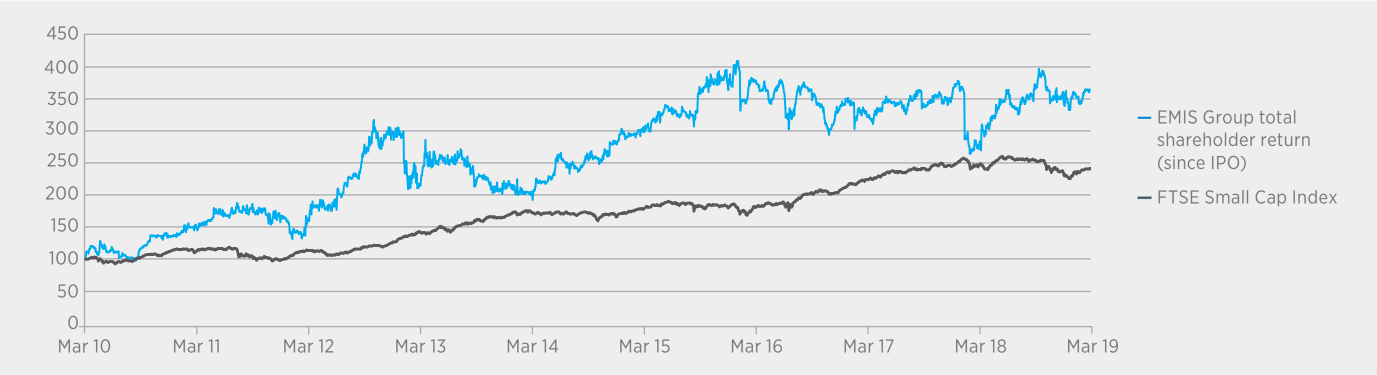
Annual report on remuneration continued

Relative importance of spend on pay

The table below shows the Group's expenditure on shareholder distributions (including dividends) and total employee pay expenditure for the financial years ending 31 December 2017 and 31 December 2018.

	Total employee expenditure	Distributions to shareholders
2018	**£79.9m**	**£17.9m**
2017	£79.9m	£16.2m
% change	0%	+10%

TSR performance



The graph above compares the value of £100 invested in EMIS Group plc shares, including reinvested dividends, with the FTSE SmallCap Index since 26 March 2010, which is the date of the Group's admission to trading on AIM. This index was selected because it is considered to be the most appropriate against which the total shareholder return of the Group should be measured.

Directors' interests

The beneficial interests of the Directors in the ordinary shares of the Company, including those acquired through the SIP, as at 31 December 2018 were as follows:

Director	**Ordinary shares at 31 December 2018**	Ordinary shares at 31 December 2017
Andy Thorburn	**22,787**	–
Peter Southby[1]	**20,638**	20,320
Mike O'Leary	**1,000**	1,000
Robin Taylor	**1,800**	1,800
Andy McKeon	**3,626**	1,626
Kevin Boyd	**7,000**	7,000
David Sides	**2,000**	2,000

1 This includes matching shares awarded under the SIP which may be subject to forfeiture under certain circumstances.

Since the year-end SIP shares have continued to be awarded each month, for which monthly Regulatory Information Service announcements have been made. This has resulted in Peter Southby holding an additional 63 shares, which include matching shares awarded under the SIP which may be subject to forfeiture in certain circumstances.

Implementation of remuneration policy for 2019

The letter from the chairman of the remuneration committee on pages 58-60 includes further detail.

Base salary

The base salaries for the Executive Directors in 2019 are set out in the table below.

Executive Director	Base salary from 1 January 2018 to 31 December 2018	Base salary from 1 January 2019 to 31 December 2019	Percentage increase
Andy Thorburn	£400,000	£400,000	0%
Peter Southby	£253,750	£264,915	4.4%

Pension

For 2019, Executive Directors will continue to receive a contribution equivalent to 15% of base salary.

Annual bonus

The maximum bonus opportunity will be 100% of salary, with target set at 50% of base salary.

The specific targets are deemed commercially sensitive but will be published retrospectively in the annual report for 2019.

Bonus payments will continue to be delivered in cash and will continue to be subject to the following conditions:

- clawback where the remuneration committee becomes aware of any information on the basis of which it is reasonable for it to form the opinion that either inaccurate figures had been reported on which the bonus target had been calculated and based or bonus outcome calculated; or there had been misconduct; or there had been any action or omission that had resulted in damage to the Group's reputation; and
- the requirement to invest 40% of any net bonus payment in shares of the Company until the minimum shareholding level relevant to the Executive Director is met.

LTIP

As explained in the Chairman's statement, we intend to make three awards in 2019. The first award will have the usual three-year performance period. It will equate to 150% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer. The threshold vesting for EPS performance has been raised from 3% in 2018 to 5% for this award. The performance metrics will be 80% based on EPS growth over the performance period and 20% based on relative TSR performance against the FTSE Small Cap as follows:

Ordinary A award	EPS growth	% award to vest	TSR	% award to vest
Below base target	Below 5% p.a.	0%	Below median	0%
Base target	5% p.a.	20%	Equal to median	5%
Maximum target	10% p.a.	80%	Upper quartile	20%

We intend that the same quantums of award would be granted in each of 2020, 2021 and 2022, each to vest after three years. EPS targets will be determined at the time of each award.

Two additional exceptional awards will be made in 2019 with performance measured entirely against EPS performance over a four and five-year period.

Exceptional "Stretch" award (2019 only) Award "B"	Performance period	Performance conditions	EPS CAGR Targets
200% of base salary for Chief Executive Officer	4 years	100% EPS growth	Threshold (0% of max): 7% p.a.
100% of base salary for Chief Financial Officer			Maximum vesting: 12% p.a.

Exceptional "Super Stretch" award (2019 only) Award "C"	Performance period	Performance conditions	EPS CAGR Targets
200% of base salary for Chief Executive Officer	5 years	100% EPS growth	Threshold (0% of max): 10% p.a.
125% of base salary for Chief Financial Officer			Maximum vesting: 15% p.a.

Executive Directors are subject to the requirement to use vested shares to add to their beneficial shareholding until the minimum shareholding level relevant to the Executive Director is met.

LTIP awards are subject to clawback as explained in the policy.

SIP

Executive Directors, subject to eligibility, will be able to continue to participate in the SIP on the same basis as in the 2018 financial year.

Chairman and Non-executive Director fees

Fee levels of the Chairman and Non-executive Directors are subject to annual review taking into account appropriate comparators and the level of time commitment of the Chairman and other Non-executive Directors. Following consideration by the Chairman and Executive Directors in relation to Non-executive Directors' fees and by the Board (excluding the Chairman) in relation to the Chairman's fees, it was determined that the following changes be made for 2019 and 2020, recognising that current fees did not reflect the market or the time commitment which is required by the Chairman and the Chairs of the remuneration and audit committees.

2019

Chairman – increase in base fee from £85,000 to £105,000; however, the current fee of £5,000 for chairing the nomination committee would be withdrawn.

Non-executive Directors – increase in base fee from £40,000 to £42,500, and an increase in the committee chair fee from £5,000 to £6,500.

2020

Chairman – increase in base fee from £105,000 to £120,000.

Non-executive Directors – increase in base fee from £42,500 to £45,000, and an increase in the committee chair fee from £6,500 to £8,000.

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2018.

This report contains certain statutory, regulatory and other information and incorporates, by reference to, certain disclosures included earlier in this document.

General information and principal activities

EMIS Group plc ("the Company" or "the parent company") is an AIM quoted company. The Company is the parent of a number of trading subsidiary companies. The principal trading subsidiaries are:

- Egton Medical Information Systems Limited and Ascribe Limited, trading under the EMIS Health and Egton brands;
- Digital Healthcare Systems Limited, trading as EMIS Specialist;
- Medical Imaging UK Limited and MIDRSS Limited trading as EMIS Care;
- Rx Systems Limited trading as EMIS Health Community Pharmacy;
- Patient Platform Limited, carrying on the business of Patient.info; and
- Dovetail Digital Limited (trading as "Dovetail Lab"), a leading early stage UK technology business specialising in blockchain software for the healthcare market, which the Company acquired in 2018.

EMIS Group is the UK leader in connected healthcare software and services. Its solutions are widely used across every major UK healthcare setting from primary, community and acute care, to high street pharmacies and specialist care services. EMIS Group helps healthcare professionals in over 10,000 organisations share vital information, facilitating better, more efficient healthcare and supporting longer and healthier lives.

EMIS Group serves the following healthcare markets under the EMIS Health brand:

- Primary, Community & Acute Care, as the UK leader in clinical management systems for healthcare providers and commissioners. EMIS Health products, including the flagship EMIS Web, hold over 40 million patient records and are used by more than 100,000 professionals in nearly 6,000 healthcare organisations.
- Community Pharmacy, with the UK's single most used integrated community pharmacy and retail system.
- Specialist Care, as England's leading provider of diabetic eye screening software and other ophthalmology-related solutions.

These markets are also supported by other EMIS Group businesses:

- under the Patient brand, a leading independent provider of patient-centric medical and wellbeing information and related transactional services;
- under the Egton brand, providing specialist ICT infrastructure, hardware and engineering services, and non-clinical software into health and social care;
- under the EMIS Care brand, providing healthcare screening programmes such as diabetic eye screening; and
- under the Dovetail Lab brand, a health technology company developing blockchain software to facilitate the integration of healthcare data.

The Company is incorporated in England and Wales and domiciled in the UK, Company number 06553923. The address of its registered office is Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY.

Capital allocation policy

EMIS Group seeks to deliver high-quality visible earnings, future earnings growth and strong cash returns. The Board has adopted a clear capital allocation policy:

- Reinvestment for growth – we invest in the infrastructure, technology and intellectual capital to drive growth in our core markets, through constant product innovation and integration, with the major EMIS-X technology refresh announced in 2018.
- Regular returns to shareholders – we pay a regular dividend to shareholders, representing typically 40% to 50% of underlying adjusted earnings and have increased the proposed full year dividend for 2018 by 10%.
- Acquisition – we supplement our organic growth by acquiring companies with promising technologies and in markets adjacent to, and consistent with, our current capabilities. In 2018 we acquired Dovetail Digital Limited and the minority stake in Rx Systems Limited.
- Balance sheet leverage and return of excess capital – we will maintain an efficient balance sheet, appropriate to our investment requirements and mindful of the preferences of all our shareholders. While we are prepared to take on additional debt if circumstances warrant, we aim to return excess capital to shareholders when appropriate.

Dividends

Subject to shareholder approval at the AGM on 8 May 2019, the Board proposes paying a final dividend of 14.2p per ordinary share (2018: 12.9p) on 13 May 2019 to shareholders on the register at the close of business on 12 April 2019. This would make a total dividend of 28.4p per ordinary share for 2018 (2017: 25.8p).

Substantial interests in shares

The Company has been notified of the following substantial interests in 3% or more in its ordinary shares:

	31 December 2018 %	2 March 2019 %
Liontrust Investment Partners LLP	11.06	11.06
Octopus Investments	7.09	7.28
Primestone Capital	6.77	6.77
Invesco Trimark	5.32	5.32
Evenlode Investment	4.99	4.99
M&G Investment Management	4.05	4.50
NFU Mutual Insurance Society Ltd	5.08	4.37
Heronbridge Investment Management	4.25	4.22

Directors and their interests

The Directors of the Company who served during the year ended 31 December 2018 and subsequently are as follows:

Mike O'Leary
Chairman

Andy Thorburn
Chief Executive Officer

Peter Southby
Chief Financial Officer

Robin Taylor
Senior Independent Non-executive Director

Kevin Boyd
Independent Non-executive Director

Andy McKeon
Independent Non-executive Director

David Sides
Independent Non-executive Director

Re-election of Directors

Directors are subject to annual re-election in line with best practice and details of Directors' remuneration, service agreements and interests in the share capital of the Company are given in the annual report on remuneration on pages 68 to 71. Robin Taylor will not be standing for re-election as he will retire at the AGM on 8 May 2019.

No Director has had any material interest in any contract of significance with the Company or any of its subsidiaries during the year under review.

Research and development

Research and development expenditure in the year amounted to £19.0m (2017: £17.1m) of which £5.8m (2017: £4.4m) was capitalised.

Share capital

As at 19 March 2019 and 31 December 2018, the Company had 63,311,396 (31 December 2017: 63,311,396) ordinary shares of 1p each in issue. The shares are traded on AIM, a market operated by the London Stock Exchange. The rights and obligations attached to the shares are set out in the Company's Articles of Association which are available on the Company's website.

The Company has previously established an Employee Benefit Trust (EBT) to hold shares in the Company to facilitate share-based emolument payments and the Group Share Incentive Plan (SIP). As at 31 December 2018 the EBT held 290,084 (2017: 348,841) ordinary shares of 1p each. The EBT has waived its right to dividends.

Details of ordinary shares under option in respect of the Company's share schemes are shown in note 28 to the financial statements.

The rules of the LTIP and CSOP set out the consequences in the event of a change of control. Further information is given in the Directors' remuneration policy on page 67.

Directors' indemnities and liability insurance

As permitted by the Articles of Association, in accordance with Section 234 of the Companies Act 2006, the officers of the Company and its subsidiaries would be indemnified in respect of proceedings which might be brought by a third party. No cover is provided for Directors and officers in respect of any fraudulent or dishonest actions. No such indemnities have been granted. The Company maintains Directors' and officers' liabilities insurance to provide appropriate cover for any legal action brought against its Directors.

Directors' report continued

Employees

The Group's policy is to ensure adequate provision for the welfare, and health and safety of its employees and of other people who may be affected by its activities. The Group is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion and belief, sexual orientation, disability and marital status. All employees are treated fairly and equally.

The Group treats applications for employment from disabled persons equally with those of other applicants having regard to their ability, experience and the requirements of the job. Where existing employees become disabled, appropriate efforts are made to provide them with continuing suitable work within the Group and to provide retraining if necessary.

For further information on our people see pages 38 to 41.

Ethical business practices

The Group has a zero tolerance approach to bribery and corruption and is committed to ensuring that it has effective processes and procedures in place to counter the risk of bribery and corruption. A formal anti-bribery policy is in place and training is undertaken annually. The policy is reviewed on a regular basis by the audit committee.

The Group has a comprehensive code of ethics and standards of business conduct document, which provides instruction and guidance to employees on expected behaviour when dealing with a wide range of stakeholders.

The Group has a whistleblowing policy, which is reviewed annually by the audit committee, and an associated reporting hotline operated by an external provider.

Modern Slavery Act

EMIS Group plc is committed to conducting business responsibly. It seeks to ensure that its supply chains operate to those same high standards, including in relation to employment practices, workplace conditions and, more specifically, the prevention of forced, bonded and trafficked labour. This is upheld through the Company's policies and processes, and is fully supported by the Board. The steps taken to help manage the risks outlined by the legislation are detailed in our Modern Slavery statement which is published annually on our website and can be found at https://www.emisgroupplc.com/investors/corporate-governance/.

Political donations

No political donations were made in 2018 (2017: £nil).

Going concern

The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the strategic report on pages 2 to 41. The revenue, trading results and cash flows are explained in the financial review on pages 34 to 37.

Note 3 to the financial statements sets out the Group's financial risks and the management of capital risks.

The Group is profitable and expects to continue to be so, with significant cash resources, a high and continuing level of recurring revenue and also high levels of cash conversion expected for the foreseeable future.

The Group has in place a £30m revolving credit facility with Barclays and Lloyds, with an accordion arrangement to increase it up to £60m if required. During the year the Group extended this facility to 30 June 2021 and has the option in 2019 to extend it by a further year to 30 June 2022.

The Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for the next three years, the Directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements.

AGM notice

The notice convening the AGM to be held on 8 May 2019, together with an explanation of the resolutions to be proposed at the meeting, is contained in a separate circular to shareholders and on the Company's website at www.emisgroupplc.com/investors/annual-general-meeting.

Auditor and statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. The Directors have individually confirmed that they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

The auditor, KPMG LLP, has indicated its willingness to be re-appointed and, in accordance with Section 489 of the Companies Act 2006, a resolution for re-appointment will be proposed at the AGM.

Corporate governance and employee information

The Company's statement on corporate governance can be found in the corporate governance report on pages 44 to 50 of this annual report and accounts. The corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

By order of the Board

Christine Benson
Company Secretary
19 March 2019

Viability statement

The Directors have voluntarily adopted the provisions of Section C.2.2 of the Code, assessing the prospects of the Group. The Directors have taken into account the Group's current position and business model and have assessed the potential impact of the principal risks and uncertainties facing the Group.

The Directors have determined that the four-year accounting period to 31 December 2022 constitutes an appropriate period over which to assess the Group's prospects and viability. This is the period focussed on by the Board during its strategic planning process and is consistent with typical contract lengths across much of the Group (three to five years). It is aligned with the Group's goodwill and other intangible impairment testing and also the Group's funding facilities, which cover the period to 30 June 2022.

While the formal assessment period extends to December 2022, the Board considers that the Group's longer-term prospects are likely to be positive beyond this time horizon as a result of increasing market demand for its products, market growth, strong competitive positions and contractual visibility.

For the purpose of making this viability statement, the Board has taken into account its ongoing assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Each year, the Board considers a medium-term strategic plan, the first year of which represents the Group's annual operating budget, together with the ability of the Group to raise finance and undertake mitigating actions to avoid the occurrence or reduce the impact of the principal risks.

In assessing viability, enhanced modelling and stress testing are performed, using severe but plausible scenarios on the financial impact of risks materialising in the following areas: healthcare structure and procurement; product integration and interoperability; software development; recruitment and retention; information governance/cyber security; and clinical safety. Further details on each of these are set out on pages 24 to 27. In addition, while the Board does not consider Brexit to be a principal risk, it has nonetheless modelled a scenario where the Group's revenues are reduced as a consequence of a general economic slowdown in the coming years.

The Group's strong contractual forward visibility of revenues, significant cash resources and strong cash conversion provide some inherent protection against unexpected shocks to the business model. In the event of these scenarios arising, various options are available to the Group in order to maintain liquidity, including: utilisation of undrawn debt facility; reduction to cost base; reduction to future investment capital expenditure; and amendment to dividend policy.

The Directors have made their viability assessment based on the following key assumptions:

- the political environment in which the NHS exists will not result in major structural change to the market in which the Group operates; and
- funding for the business will continue to be available in all plausible market conditions.

Taking into account the Group's current position and principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022.

Statement of Directors' responsibilities

in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a corporate governance statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and a Directors' report that complies with that law and those regulations.

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

Responsibility statement of the Directors on the annual financial report

The Directors who held office at the date of approval of this Directors' report and whose names and functions are listed on pages 42 and 43 confirm that, to the best of each of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report contained in this annual report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face. The Directors have carried out a robust assessment of the principal risks facing the Company; and
- the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Independent auditor's report

to the members of EMIS Group plc

1. Our opinion is unmodified

We have audited the financial statements of EMIS Group plc ("the Company") for the year ended 31 December 2018 which comprise the Group statement of comprehensive income, the Group and parent company balance sheet, the Group and parent company statement of cash flows and the Group and parent company statement of changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: group financial statements as a whole	£1.4m (2017: £1.4m) 5.1% (2017: 5.0%) of group profit before tax and exceptional items (defined as reorganisation costs and service level reporting charges)	
Coverage	95% (2017: 96.1%) of group profit before tax and exceptional items	
Key audit matters		**vs 2017**
Event driven	**New:** Acquisition of Dovetail Digital	▲
Recurring risks	Recoverability of parent company's investment in subsidiaries	◀▶

Independent auditor's report continued

to the members of EMIS Group plc

2. Key audit matters: our assessment of risks of material misstatement

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

	The risk	Our response
Acquisition of Dovetail Digital (Group Intangible assets acquired – £5.0m; Group and company Contingent consideration – £3.5m; Financial liability in respect of put option – £2.4m) *Refer to page 53 (Audit Committee Report), pages 89 and 91 (accounting policy) and pages 91, 104 and 108 (financial disclosures)*	**Subjective valuation** The Group acquired Dovetail Digital in the year. The determination of separately identifiable intangible assets arising on business combinations involves a degree of judgement. Valuation of the intangible assets identified by the Group may be complex and/or sensitive to underlying assumptions around future cash flows and discount rates. Contingent consideration which becomes payable on the achievement of certain performance targets involves judgement around the probability of achieving future forecast cash flows. The valuation of any liability associated with the put option in place over the remaining non-controlling interest involves judgement in determining the expected exercise price of the put option. The effect of these matters is that, as part of our risk assessment, we determined that the fair values determined in relation to the acquisition of Dovetail Digital have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (notes 2 and 26) disclose the sensitivity estimated by the Group.	Our procedures included: • **Methodology choice:** Assessing, using our own valuation specialist, whether the Group's intangible asset valuation was performed in accordance with relevant accounting standards and acceptable valuation practice; • **Evaluating assumptions:** Challenging the revenue and cost forecasts and discount rate assumptions that are used by the Group to determine the value of intangible assets, the extent to which contingent consideration becomes payable and the value of the financial liability in respect of the put option, using our knowledge of the business and industry, and through comparison to externally derived data; • **Sensitivity analysis:** Assessed the sensitivity of the valuation of the intangible assets acquired to changes in key assumptions; and • **Assessing transparency:** considering the adequacy of the Group's disclosures, including sensitivity analysis, in respect of the assumptions inherent in the valuation of intangible assets, contingent consideration payable and financial liability in respect of the put option.
Recoverability of parent company's investment in subsidiaries (Parent company only) (Investments - £110.0 million; 2017: £67.4m) Refer to page 90 (accounting policy) and page 100 (financial disclosures)	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 82% (2017: 53%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit making. For the investments where the carrying amount exceeded the net asset value, our procedures included: • **Tests of detail:** Comparing the carrying amount of investments with an estimate of value in use based on forecast future cash flows or, where relevant, an estimate of fair value less costs to sell.

In the prior year we had service level reporting charges and revenue recognition as Key Audit Matters. We continue to perform procedures over service level reporting charges and revenue recognition. In respect of service level reporting charges the negotiated settlement has now been agreed and paid, and the backlog of unfixed reportable issues remediated and therefore the level of judgement involved is significant reduced. In respect of revenue recognition, the quantum of contracts involving significant judgement around progress to date and estimated effort to complete has reduced in the year. As such we have not assessed these matters as some of the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £1.4m (2017: £1.4m), determined with reference to a benchmark of profit before tax and exceptional items (defined as reorganisation costs and service level reporting charges), of which it represents 5.1% (2017: 5.0%).

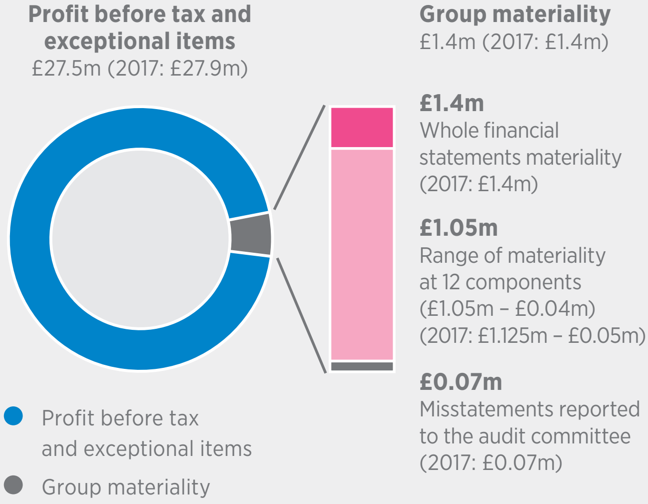
Materiality for the parent company financial statements as a whole was set at £1.05m (2017: £1.0m), determined with reference to a benchmark of parent company net assets, of which it represents 1% (2017: 1.5%).

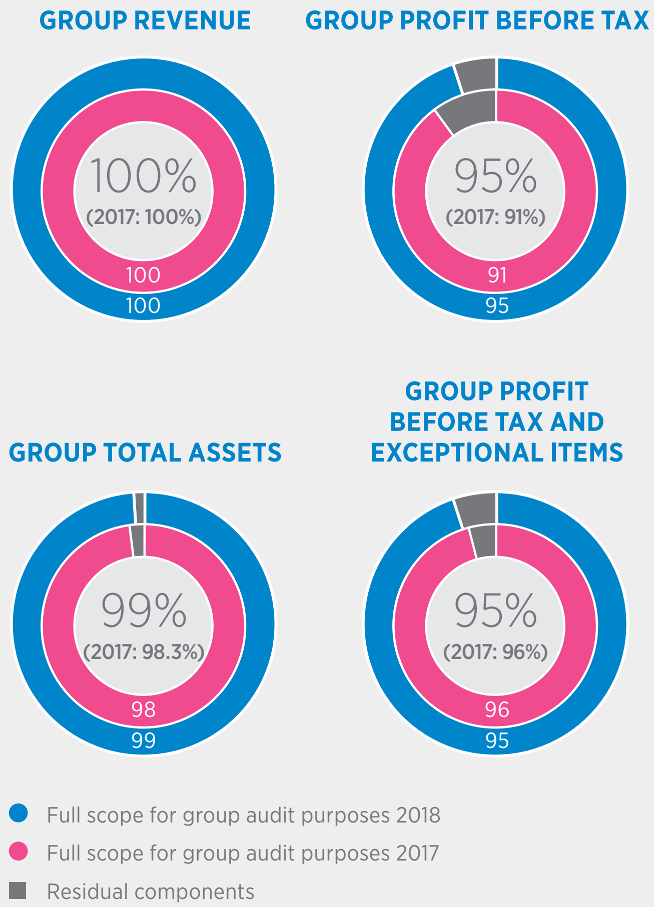
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.07m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 21 (2017: 21) reporting components, we subjected 12 (2017: 11) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite. The percentages for group profit before tax were calculated based on the total profits and losses that made up group profit before tax.

The work on all components subject to full scope audits for group purposes, including the audit of the parent company, was performed by the Group team.





Independent auditor's report continued

to the members of EMIS Group plc

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Unsuccessful bid under the NHS IT Futures framework

As this was a risk that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from this risk individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risk materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

5. We have nothing to report on the other information in the annual report continued

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 76, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Frances Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
19 March 2019

Group statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 Restated[6] £'000
Revenue	5	**170,070**	160,354
Costs:			
Changes in inventories		**(369)**	(182)
Cost of goods and services		**(14,317)**	(14,492)
Staff costs[1]	9	**(74,007)**	(75,162)
Other operating expenses[2,6]		**(29,125)**	(38,834)
Depreciation of property, plant and equipment[6]		**(6,259)**	(5,791)
Amortisation of intangible assets	14	**(17,253)**	(15,253)
Adjusted operating profit		**37,608**	37,406
Development costs capitalised	9, 14	**5,782**	4,426
Amortisation of intangible assets[3]	14	**(16,307)**	(14,204)
Reorganisation costs[4]		**—**	(5,800)
Service level reporting charges[5]		**1,657**	(11,188)
Operating profit	6	**28,740**	10,640
Finance income	7	**64**	3
Finance costs	8	**(249)**	(302)
Share of result of joint venture	17	**615**	596
Profit before taxation		**29,170**	10,937
Income tax expense	10	**(5,548)**	(2,074)
Profit for the year		**23,622**	8,863
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(40)**	30
Other comprehensive income		**(40)**	30
Total comprehensive income for the year		**23,582**	8,893
Attributable to:			
– equity holders of the parent		**22,670**	8,083
– non-controlling interest in subsidiary company		**912**	810
Total comprehensive income for the year		**23,582**	8,893

Earnings per share attributable to equity holders of the parent		**Pence**	Pence
Basic	11	**36.1**	12.8
Diluted	11	**36.0**	12.8

1 Including reorganisation costs of £nil (2017: £5,688,000).

2 Including reorganisation costs of £nil (2017: £112,000), and a credit for service level reporting charges of £1,657,000 (2017: cost of £11,188,000).

3 Excluding amortisation of computer software used internally of £946,000 (2017: £1,049,000).

4 The reorganisation costs in 2017 relate to redundancy and restructuring costs.

5 The service level reporting charges relate to the NHS Digital reporting issue and reflect the cost of settling the issue with NHS Digital and the cost of remediating the software code to address the problem backlog present at the 2017 year end, together with associated professional fees. The charge was estimated at 31 December 2017 and was confirmed during 2018 at a lower level than expected, resulting in a provision release of £1,657,000 in the year.

6 The 2017 Group statement of comprehensive income has been restated to reclassify contract asset depreciation of £1,285,000 from other operating expenses to depreciation of property, plant and equipment due to this being considered to be more appropriate presentation.

The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Group and parent company balance sheets

as at 31 December 2018

	Notes	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Non-current assets					
Goodwill	13	**51,958**	50,336	**—**	—
Other intangible assets	14	**44,849**	50,508	**2,953**	3,565
Property, plant and equipment	15	**21,000**	22,037	**—**	—
Investments in subsidiaries	16	**—**	—	**109,555**	67,404
Investment in joint venture	17	**113**	98	**—**	—
		117,920	122,979	**112,508**	70,969
Current assets					
Inventories	18	**1,264**	1,633	**—**	—
Trade and other receivables	19	**36,223**	40,148	**3,336**	3,314
Current tax assets		**—**	1,128	**—**	—
Cash and cash equivalents		**15,620**	13,991	**790**	677
Amounts owed by subsidiary companies		**—**	—	**17,324**	52,119
		53,107	56,900	**21,450**	56,110
Total assets		**171,027**	179,879	**133,958**	127,079
Current liabilities					
Trade and other payables	21	**(24,958)**	(20,207)	**(936)**	(621)
Deferred income		**(34,170)**	(33,736)	**—**	—
Current tax liabilities		**(29)**	—	**—**	—
Other financial liability	26	**(1,012)**	—	**(1,012)**	—
Provision	24	**—**	(11,188)	**—**	—
Amounts owed to subsidiary companies		**—**	—	**(14,050)**	(48,494)
		(60,169)	(65,131)	**(15,998)**	(49,115)
Non-current liabilities					
Deferred tax liability	25	**(4,293)**	(6,734)	**—**	—
Other financial liabilities	26	**(3,906)**	—	**(3,906)**	—
		(8,199)	(6,734)	**(3,906)**	—
Total liabilities		**(68,368)**	(71,865)	**(19,904)**	(49,115)
Net assets		**102,659**	108,014	**114,054**	77,964
Equity					
Ordinary share capital	27	**633**	633	**633**	633
Share premium	27	**51,045**	51,045	**51,045**	51,045
Own shares held in trust		**(1,913)**	(2,293)	**—**	—
Retained earnings		**51,884**	51,289	**61,563**	24,067
Other reserve		**611**	2,057	**813**	2,219
Equity attributable to owners of the parent		**102,260**	102,731	**114,054**	77,964
Non-controlling interest		**399**	5,283	**—**	—
Total equity		**102,659**	108,014	**114,054**	77,964

The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

The financial statements on pages 82 to 109 were approved by the Board of Directors and authorised for issue on 19 March 2019 and are signed on its behalf by:

Andy Thorburn
Chief Executive Officer

Peter Southby
Chief Financial Officer

Company number 06553923 (England and Wales)

Group and parent company statements of cash flows

for the year ended 31 December 2018

	Notes	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Adjusted cash generated from operations		**54,469**	49,652	**(510)**	(1,027)
Development costs capitalised		**5,782**	4,426	**—**	—
Cash cost of exceptional items		**(10,378)**	(5,244)	**—**	—
Cash generated from operations	31	**49,873**	48,834	**(510)**	(1,027)
Finance costs		**(247)**	(359)	**(169)**	(181)
Finance income		**33**	3	**149**	13
Tax paid		**(5,830)**	(8,139)	**—**	—
Net cash generated from/(used in) operating activities		**43,829**	40,339	**(530)**	(1,195)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(6,205)**	(6,198)	**—**	—
Proceeds from sale of property, plant and equipment		**178**	329	**—**	—
Development costs capitalised		**(5,782)**	(4,426)	**—**	—
Purchase of software		**(780)**	(718)	**—**	—
Increase in loan from subsidiary company		**—**	—	**(27,359)**	10,430
Dividends received		**600**	650	**54,959**	20,086
Business combinations	33	**(1,402)**	—	**(1,851)**	—
Net cash (used in)/generated from investing activities		**(13,391)**	(10,363)	**25,749**	30,516
Cash flows from financing activities					
Increase in loan to Employee Benefit Trust		**—**	—	**9**	—
Transactions in own shares held in trust		**306**	(30)	**—**	—
Bank loan repayments		**—**	(2,000)	**—**	(2,000)
Non-controlling interest dividend paid		**(4,000)**	—	**—**	—
Acquisition of non-controlling interest	34	**(8,045)**	—	**(8,045)**	—
Dividends paid	12	**(17,070)**	(15,476)	**(17,070)**	(15,476)
Net cash used in financing activities		**(28,809)**	(17,506)	**(25,106)**	(17,476)
Net increase in cash and cash equivalents		**1,629**	12,470	**113**	11,845
Cash and cash equivalents at beginning of year		**13,991**	1,521	**677**	(11,168)
Cash and cash equivalents at end of year		**15,620**	13,991	**790**	677

The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Group and parent company statements of changes in equity

for the year ended 31 December 2018

Group	Share capital £'000	Share premium £'000	Own shares held in trust £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2017	633	51,045	(2,275)	58,239	2,027	4,473	114,142
Profit for the year	—	—	—	8,053	—	810	8,863
Transactions with owners							
Share acquisitions less sales	—	—	(18)	(12)	—	—	(30)
Share-based payments	—	—	—	550	—	—	550
Deferred tax in relation to share-based payments	—	—	—	(65)	—	—	(65)
Dividends paid (note 12)	—	—	—	(15,476)	—	—	(15,476)
Other comprehensive income							
Currency translation differences	—	—	—	—	30	—	30
At 31 December 2017	633	51,045	(2,293)	51,289	2,057	5,283	108,014
Profit for the year	—	—	—	22,710	—	912	23,622
Changes in ownership interest							
Non-controlling interest acquisition (note 34)		—	—	(5,842)	—	(2,203)	(8,045)
Acquisition of subsidiary with non-controlling interest (note 33)	—	—	—	—	—	407	407
Transactions with owners							
Share acquisitions less sales	—	—	380	—	—	—	380
Share-based payments	—	—	—	766	—	—	766
Deferred tax in relation to share-based payments	—	—	—	31	—	—	31
Dividends paid (note 12)	—	—	—	(17,070)	—	(4,000)	(21,070)
Option over non-controlling interest (note 26)	—	—	—	—	(2,406)	—	(2,406)
Contingent acquisition consideration (note 33)	—	—	—	—	1,000	—	1,000
Other comprehensive income							
Currency translation differences	—	—	—	—	(40)	—	(40)
At 31 December 2018	**633**	**51,045**	**(1,913)**	**51,884**	**611**	**399**	**102,659**

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserve £'000	Total equity £'000
At 1 January 2017	633	51,045	19,958	2,219	73,855
Profit for the year	—	—	19,047	—	19,047
Transactions with owners					
Share acquisitions less sales	—	—	(12)	—	(12)
Share-based payments	—	—	550	—	550
Dividends paid (note 12)	—	—	(15,476)	—	(15,476)
At 31 December 2017	633	51,045	24,067	2,219	77,964
Profit for the year	—	—	53,800	—	53,800
Transactions with owners					
Share acquisitions less sales	—	—	—	—	—
Share-based payments	—	—	766	—	766
Dividends paid (note 12)	—	—	(17,070)	—	(17,070)
Option over non-controlling interest (note 26)	—	—	—	(2,406)	(2,406)
Contingent acquisition consideration (note 33)	—	—	—	1,000	1,000
At 31 December 2018	**633**	**51,045**	**61,563**	**813**	**114,054**

The notes on pages 86 to 109 are an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2018

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all periods presented.

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

For the Group statement of comprehensive income, in addition to the results presented in accordance with IFRS, the Board has also disclosed information on what it regards as the underlying performance of the business. Further details on these Alternative Performance Measures (APMs) are provided on page 20.

The Group is profitable and it is anticipated that this will continue. There is a high and continuing level of recurring revenue and high cash conversion.

The Directors have prepared cash flow forecasts covering a period of more than twelve months from the date of approval of these financial statements. These forecasts, including consideration of reasonably possible downside scenarios linked to the principal risks and uncertainties set out in the strategic report, show that the Group will continue to operate within the facility in place (see note 22). Based on this assessment the Directors have reasonable expectation that the Group and Company have adequate resources to continue existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and judgements that affect the reported amounts of assets and liabilities and of revenues and expenses. It also requires management to exercise its judgement in the application of accounting policies. The critical accounting judgements and key sources of estimation uncertainty in the 2018 financial statements are set out in note 2.

The financial statements are presented in sterling, which is also the functional currency of the parent company. The financial statements are presented in round thousands.

1.2 Parent company statement of comprehensive income

As permitted by Section 408 of the Companies Act 2006, the parent company has not presented its own statement of comprehensive income. The profit of the parent company for the year was £53,800,000 (2017: £19,047,000).

1.3 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The Group has adopted the following new standards, amendments or interpretations in these financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Share Based Payments
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4
- Annual Improvements to IFRSs – 2014–2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40 Investment Property

None of these have had a material impact on the financial statements. IFRS 9 and IFRS 15 are of most relevance to the Group. Further details on each are set out below.

i) IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments from 1 January 2018, replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out the requirements for assessing the impairment of financial assets, requiring consideration of the likelihood of default of trade receivables, firstly by splitting out the high risk balances and continuing to provide for these separately, and then applying a loss rate to the remaining balance. On the basis that the Group has little or no history of unprovided trade receivable write off (with the majority of these balances with various parties within the government-supported National Health Service), adopting this new standard has not had a material impact and accordingly no financial restatement has been made. It has not had a significant effect on the Group's accounting policy, which is to make specific provisions against high risk trade receivable and other financial asset balances, where balances are in dispute or where doubt exists about the customer's ability to pay, applying an expected loss rate to the remaining financial assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and has not had a significant effect on the Group's accounting policy.

ii) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 on a retrospective basis. IFRS 15 replaced all existing revenue recognition requirements in IFRS and sets out a comprehensive framework for determining whether, when and how much revenue to recognise. The Group has completed its assessment of IFRS 15 and has not identified any material differences between the requirements of IFRS 15 and the Group's previous revenue recognition policy. Accordingly no financial restatement has been made. Revenue is only recognised when (or as) control of goods or services passes to the customer, in accordance with when distinct performance obligations are met, and at the amount to which the Group expects to be entitled.

1. Summary of significant accounting policies continued

1.3 Changes in accounting policy and disclosure continued

(a) New and amended standards adopted by the Group continued

ii) IFRS 15 Revenue from Contracts with Customers continued

The Group's most significant revenue category is the sale of software and software licences with principally all of this revenue derived from software subscription fees. The Group has a responsibility to maintain clinical standards within its software over the period of supply to the customer, with performance obligations being met, and revenue recognised, over this period of time. Revenue from the sale of any perpetual licences or the sale of the software itself is recognised at the point in time that ownership passes to the customer.

The Group's five other revenue categories are: maintenance and software support; other support services; hosting; training, consultancy and implementation; and hardware. Of these, revenue from the sale of hardware has a performance obligation that is met at a point in time, being the point in time when hardware is delivered or installed. The performance obligations for the Group's other revenue categories are typically satisfied over time, either as the service is provided or the project delivered.

b) Adopted IFRS not yet applied

A number of new standards, amendments or interpretations have been issued but are not mandatory for the year ended 31 December 2018 and consequently have not been applied by the Group in these financial statements. Further details, including the anticipated impact of adopting IFRS 16, are set out below.

- IFRS 16 Leases (effective date 1 January 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019)
- Amendments to IFRS 9 Financial Instruments (effective date 1 January 2019)
- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective date 1 January 2019)
- Annual Improvements to IFRSs – 2015-2017 Cycle (effective date 1 January 2019)
- Amendments to IAS 19 Employee Benefits (effective date 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020)
- Amendment to IFRS 3 Business Combinations (effective date 1 January 2020)
- Amendments to IAS 1 and IAS 8 (effective date 1 January 2020)
- IFRS 17 Insurance contracts (effective date 1 January 2021)

IFRS 16 Leases

IFRS 16 Leases has been issued and is effective for annual periods beginning after 1 January 2019. IFRS 16 covers the requirements for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. This is a significant departure from the current standard, IAS 17 Leases, and will result in most of the Group's operating leases being brought onto the balance sheet (and the associated operating lease charge, currently charged to operating profit, being replaced with a finance cost and depreciation charge).

The Group has not early adopted IFRS 16 in the preparation of its 2018 financial statements but has completed its initial assessment of the impact of IFRS 16, identifying that an additional net liability no more than £500,000 will be brought onto the balance sheet from 1 January 2019. There is not expected to be a material impact on the Group's profit before tax for the year ending 31 December 2019.

1.4 Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December 2018.

Subsidiaries

Subsidiaries are entities over which the Company has power, to which the Company has exposure or rights to variable returns and where the Company has an ability to use its power to affect those returns. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets on an acquisition-by-acquisition basis.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the separable identifiable net assets acquired and liabilities incurred or assumed at the acquisition date is recorded as purchased goodwill. Provision is made for any impairment. Accounting policies previously applied by acquired subsidiaries are changed as necessary to comply with accounting policies adopted by the Group.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

In the parent company balance sheet, investments in subsidiaries are recorded at cost and are tested for impairment when there is objective evidence of impairment. Any such impairment losses are recognised in the income statement in the period they occur.

The EMIS Group plc Employee Benefit Trust is treated as a separate legal entity within the Group consolidation.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake economic activities that are subject to "joint control", which means that the strategic financial and operating policy decisions relating to the relevant activities require the unanimous consent of the parties sharing control.

Notes to the financial statements continued

for the year ended 31 December 2018

1. Summary of significant accounting policies continued

1.5 Operating segments

Investments in joint ventures are recognised in the Group financial statements using the equity method of accounting and initially carried on the balance sheet at cost. The carrying value of investments (including any goodwill) is tested for impairment when there is objective evidence of impairment and is stated net of any impairment loss. The Group's share of post-acquisition profits or losses is recognised in the Group statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in reserves. Where necessary, adjustments are made to bring the accounting policies used into line with those used by the Group.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the main Board.

1.6 Revenue recognition

Revenue is recognised at the fair value of the right to the consideration received or receivable for goods sold and services provided in the normal course of business during the year. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when (or as) control of goods or services passes to the customer in accordance with when distinct performance obligations are met, and at the amount to which the Group expects to be entitled. Specific criteria in respect of the Group's revenue categories are described below:

- Revenue from software subscription fees (non-perpeptual licences), maintenance and software support and other support services is recognised on a straight-line basis as performance obligations are met over the period of supply. Software fees that form part of long-term software installation contracts (principally within Acute Care) are spread over the implementation phase of these contracts (in line with the period over which the service is provided). Specialist & Care service contract revenues are recognised as delivered over the period of supply and advertising revenues generated in the Patient segment are recongised as advertisements are displayed.
- Revenue from hosting services, principally under the General Practitioner Systems of Choice (GPSoC) framework, is recognised as follows:
  - Provision of infrastructure and hardware – over the period that the service is provided, in line with the anticipated life of the related assets as capitalised within property, plant and equipment.
  - Other services are recognised over the period of supply or when delivered as appropriate.
- Revenue from training, consultancy and system implementations, and revenue from licences of a perpetual nature, is recognised at the point in time that delivery to a customer has occurred with no significant vendor obligations remaining and where the collection of the resulting receivable is considered probable. For long-term software installation contracts (principally within Acute Care), revenue is recognised according to the stage of completion.
- Revenue from hardware sales is recognised at the point in time when ownership passes.

Where invoices are raised in advance of the performance obligations being satisfied, these are recorded on the balance sheet as deferred income. This deferred income relates predominantly to services which are recognised on a straight line basis over the period of supply. These services are typically invoiced at the beginning of the provision of service and the associated revenue is recognised over this period. These are captured within current liabilities on the basis that they are expected to be recognised in revenue over the next twelve months.

Where Group recognition criteria have been met but no invoice to the customer has been raised at the reporting date, revenue is recognised and included as an accrued income, within trade and other receivables.

1.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition of a subsidiary compared with the fair value at the date of acquisition of the identifiable net assets acquired. Goodwill does not have a finite life and is not subject to amortisation. It is reviewed annually for impairment and whenever there is an indication that there may be impairment.

Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination and which represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(b) Computer software developed for external sale

Expenditure on software development is capitalised as an intangible asset if it meets the recognition criteria set out in IAS 38 Intangible Assets, requiring it to be probable that the expenditure will generate future economic benefits and can be measured reliably. To meet these criteria, it is necessary to be able to demonstrate, among other things, the technical feasibility of completing the intangible asset so that it will be available for use or sale.

The costs incurred in the development stage for substantially new or enhanced products are assessed against the IAS 38 criteria and considered for recognition as an asset when they meet those criteria. These costs are generally incurred in developing the detailed product design, software configuration and interfaces, in the coding of software, in its integration with hardware, and in its testing.

Development expenditure directed towards incremental improvements in existing products, remedial work and other maintenance activity does not qualify for recognition as an intangible asset.

Where a product is technically feasible, production and sales are intended, a market exists and sufficient resources are available to complete the project, development costs (only direct employee costs) are capitalised and subsequently amortised on a straight-line basis over the estimated useful life, reflecting the pattern of the expected future economic benefits. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred.

1. Summary of significant accounting policies continued

1.7 Intangible assets continued

(b) Computer software developed for external sale continued

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The estimated useful life for development expenditure is generally between four and eight years, based on the anticipated conditions in the market from which economic benefits are expected to be derived for each unique software product.

Development expenditure is capitalised in accordance with the criteria of IAS 38 and for this reason is not regarded as a realised loss.

(c) Other intangible assets

Intangible assets acquired in a business combination are initially recognised at their fair value. Other intangible assets are initially recognised at cost. Intangible assets are subsequently stated at this value less accumulated amortisation and any accumulated impairment losses.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the asset, as shown below:

Computer software used internally	4–6 years
Computer software acquired on business combinations	4–8 years
Customer relationships	10–15 years

1.8 Property, plant and equipment

Property, plant and equipment acquired with subsidiary companies are recognised at fair value at the date of acquisition. Other additions are recognised at purchase cost. Depreciation is provided on all property, plant and equipment, other than freehold land, to write assets down to their residual value on a straight-line basis over their estimated useful lives at the following annual rates:

Freehold property	2%
Leasehold property	Life of lease
Computer equipment	25%–33%
Fixtures, fittings and equipment	25%
Motor vehicles	20%

1.9 Impairment of property, plant and equipment and intangible assets excluding goodwill

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

An impairment loss is recognised whenever the carrying amount of an asset, or its cash-generating unit, exceeds the asset's recoverable amount. Impairment losses are recognised as an expense in the Group statement of comprehensive income.

The recoverable amount of assets is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1.10 Taxation

The taxation expense charged in the Group statement of comprehensive income represents the sum of the current tax expense and the deferred tax expense.

The current tax payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the Group statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group liability for current tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Group statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax relates to income tax levied by the same tax authorities on either:

- the same taxable entity; or
- different taxable entities which intend to settle current tax assets and liabilities on a net basis or to realise and settle them simultaneously in each future period when the deferred tax assets and liabilities are expected to be realised or settled.

Notes to the financial statements continued

for the year ended 31 December 2018

1. Summary of significant accounting policies continued

1.11 Leasing

Operating lease annual rentals are charged in the Group statement of comprehensive income on a straight-line basis over the term of each lease.

1.12 Share-based payments

The Group operates both equity-settled and cash-settled share schemes for certain employees. The cost of share-based payments is initially measured at fair value at the date of grant, factoring in the impact of any market based performance conditions. Non-market based and service-based vesting conditions are not taken into account when estimating fair value, but are factors in determining the number of share options that will eventually vest. The fair values are measured using the Black Scholes and Monte Carlo models. After initial measurement, fair values in relation to equity-settled schemes are not remeasured. Fair values in relation to cash-settled schemes are remeasured each reporting date and on settlement.

The cost of share based-payments is recognised in the Group statement of comprehensive income on a straight-line basis over the vesting period with the corresponding amount credited to equity or liabilities for equity-settled or cash-settled schemes respectively, based on an estimate of the number of shares that will eventually vest. The estimate of the level of vesting is reviewed annually and the charge is adjusted accordingly in respect of non-market based vesting conditions.

1.13 Retirement benefit costs

Contributions payable by the Group during the period into its defined contribution pension plans are recognised in the Group statement of comprehensive income. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1.14 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are taken directly to the translation reserve. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve is reclassified to the statement of comprehensive income as part of the gain or loss on disposal.

1.15 Exceptional items

Exceptional items are items of income and expense which are material and, due to their nature or size, are presented separately on the face of the income statement in order to provide a better understanding of the Group's financial performance. Exceptional items are excluded from the Group's alternative performance measures (APMs), as defined on page 20.

1.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

1.17 Own shares held in trust

The shares in the Company held by The EMIS Group plc Employee Benefit Trust are treated as treasury shares, stated at weighted average cost and presented as a reduction of shareholders' equity (see note 27). Gains and losses on transactions in the Company's own shares are taken directly to equity.

1.18 Financial instruments

Financial assets and financial liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

Trade receivables

Trade receivables are amounts due from customers for goods sold and services provided in the ordinary course of business. Trade 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 the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. Specific provisions are made against high risk trade receivable balances, where balances are in dispute or where doubt exists about the customer's ability to pay.

Investments

Investments in subsidiaries and joint ventures are recorded at cost in the Company balance sheet. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the income statement in the period they occur.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and at bank, and bank overdrafts. There are no bank deposits with maturity dates of more than one month.

1. Summary of significant accounting policies continued

1.18 Financial instruments continued

(b) Financial liabilities

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, where this is different to the initial recognition value.

Bank borrowings

Bank loans are recorded initially at their fair value, net of issue costs. Issue costs are charged to the Group statement of comprehensive income over the term of the instrument at a constant rate on the carrying amount. Such instruments are subsequently carried at their amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the fair value of the consideration received.

Contingent acquisition consideration

Consideration payable as part of the acquisition cost of a business combination is recognised at estimated fair value at the acquisition date. Subsequent changes in the measurement of cash-settled consideration are recognised in the statement of comprehensive income. Equity-settled consideration is not remeasured and subsequent settlement is accounted for in equity.

Put option arrangements

The potential cash payments related to put options issued by the Group over the non-controlling interest of subsidiary companies acquired are measured at estimated fair value and accounted for as financial liabilities, recognised in equity. Subsequent to initial recognition, any changes to the carrying amount of non-controlling interest put option liabilities are recognised through equity.

1.19 Dividends

Interim dividends are recognised as distributions in the accounts when paid. Final dividends are recognised in the accounts in the year in which they are approved by shareholders.

2. Critical accounting judgements and key sources of estimation uncertainty

In preparing the 2018 financial statements no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations, that could have a material effect on the amounts recognised in the financial statements.

The source of estimation uncertainty at 31 December 2018 that has a significant risk of resulting in a material change to the carrying value of assets within the next year is with regard to accounting for business combinations. Another source of estimation uncertainty is with regard to capitalised development costs.

Business combinations

On 31 October 2018 the Group acquired 90% of the share capital of Dovetail Digital Limited, a leading early stage UK technology business specialising in blockchain software for the healthcare market. Estimates are required with regard to determining, and allocating, the fair value of consideration. A computer software intangible asset of £5,032,000 and goodwill of £1,622,000 have been recognised upon acquisition, with a total consideration payable of £5,288,000. Of this consideration payable, £3,512,000 relates to contingent consideration payable upon the achievement of specified product delivery and revenue targets (with £2,512,000 of this cash settled and £1,000,000 equity settled). The software intangible asset has been valued based on the future cash flows expected to be generated from the sale of the software, with estimates made for future revenues and costs.

A further financial liability of £2,406,000 has been recognised for the put option in place over the 10% of share capital not owned by the Group. The put option is exercisable in 2026 (provided the Group has not exercised the related call option between 2023 and 2025), on an exercise price based on a multiple of operating profit for the preceding year. The estimate of the put liability is therefore dependent on the future financial performance of Dovetail Digital, specifically future revenues and costs. Judgement has been exercised in recognising a non-controlling interest, with the Group having applied the present-access method, on the basis that the non-controlling shareholders continue to have present access to the returns associated with their underlying ownership interests.

Carrying amount of computer software developed for external sale

Computer software developed for external sale is the Group's most significant intangible asset, with a net book value of £14,191,000 at 31 December 2018. Estimates are required with regard to when to commence the amortisation of capitalised development costs and also the period of time over which economic benefits are generated from it. Products/software development projects are unique, with eligibility for capitalisation separately considered for each. Typically amortisation commences when the software has been installed and is available for use, and will be amortised over the period for which software is expected to be used by the customers and markets it serves.

The following are no longer considered to be key sources of estimation uncertainty.

Revenue recognition

Where software installations (principally in Acute Care) span the reporting period end, estimates of the stage of completion are required to determine the amount of license, training and consultancy revenue to be recognised. The value of revenue recognised during the year in relation to installations ongoing at 31 December 2018 was £1,869,000 (2017: £2,897,000) and accordingly this is no longer considered to be a source of estimation uncertainty that could result in a material charge to the revenue recognised.

Service level reporting charges

In the prior year an anticipated cost of £11,188,000 was recognised as a provision within current liabilities in relation to NHS Digital reporting issues. During 2018 all charges were agreed and settled, resulting in a provision release of £1,657,000.

Notes to the financial statements continued

for the year ended 31 December 2018

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to financial risks including credit risk, liquidity risk, interest rate risk and price risk. The Group manages these risks through a risk management programme that seeks to minimise potential adverse effects on the Group's performance.

Exposure to financial risks is monitored by the finance team under policies approved by the Board and Audit Committee. An assessment of the risks is provided to the Board at regular intervals and is discussed to ensure that the risk mitigation procedures are compliant with Group policy and that any new risks are appropriately managed.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, which are stated net of allowances for any estimated irrecoverable amounts. However, this risk is mitigated by payment being received in advance for a significant proportion of goods and services provided.

There is some concentration of risk, as the Group trades extensively with various parties within the National Health Service. However, the Group has longstanding relationships with these parties, which, in addition to the normal credit management processes, assist management in controlling its credit risk.

Credit risk also arises on cash and cash equivalents placed with the Group's banks. The Group monitors the financial standing of any institution with which it deposits cash and has a formal treasury policy in place covering the maximum amount of cash to be placed with any one institution and their minimum credit rating.

Liquidity risk

Management controls and monitors the Group's cash flow on a regular basis, including forecasting future cash flows, to ensure that it has sufficient financial resources to meet the obligations of the Group as they fall due.

Details of the Group's borrowings and the maturity profile of the Group's financial liabilities are disclosed in notes 22 and 23.

Interest rate risk

The Group has limited exposure to interest rate risk with no borrowings at 31 December 2018. The Group has an undrawn £30,000,000 credit facility in place, further details of which are disclosed in note 22.

The Group's current assets include cash and cash equivalents at the year end amounting to £15,620,000, on which interest received is subject to fluctuations in market rates.

Price risk

As a significant proportion of the Group's revenues are secured under framework agreements or other long-term contracts, it has only limited exposure to price risk other than at the point of renegotiation of these frameworks or contracts. Where these negotiations are material, the Group, including the Board, is fully engaged with the process in order to secure the best possible outcome.

3.2 Capital risk management

The Group defines the capital that it manages as the Group's total equity, including non-controlling interests.

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to investors and benefits for other stakeholders and to maintain an appropriate capital structure to reduce the cost of capital;
- to provide an adequate return to shareholders based on the level of risk assumed;
- to have financial resources available to allow the Group to invest in areas that may deliver future benefits and returns to shareholders and other stakeholders; and
- to maintain financial resources sufficient to mitigate against risks and unforeseen events.

The Group is profitable and has high cash conversion with no indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

The Group's reserves include:

Own shares held in trust – an Employee Benefit Trust holds shares in the Company to facilitate share-based emolument payments and the Group's Share Incentive Plan.

Other reserve – comprises a translation reserve of foreign exchange differences from the translation of the financial statements of overseas operations, other reserves related to merger reliefs taken under UK law, equity settled contingent acquisition consideration, and a put option over the purchase of non-controlling interest.

4. Operating segments

IFRS 8 Operating Segments provides for segmental information disclosure on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The Group considers that this role is performed by the main Board.

The Group has four operating and reportable segments, all involved with the supply and support of connected healthcare software and services:

- Primary, Community & Acute Care;
- Community Pharmacy;
- Specialist & Care; and
- Patient.

4. Operating segments continued

Each operating segment is assessed by the Board based on an adjusted measure of operating profit, as defined on page 20. Group operating expenses, finance income and costs, and cash and cash equivalents are not allocated to segments, as group and financing activities are not segment specific.

Segmental information

	2018					2017				
	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000
Segmental result										
Revenue	**121,670**	**25,044**	**20,360**	**2,996**	**170,070**	117,583	21,895	17,993	2,883	160,354
Segmental operating profit/(loss) as reported internally	**33,609**	**7,575**	**1,111**	**(3,203)**	**39,092**	34,896	5,627	139	(1,870)	38,792
Development costs capitalised	**3,589**	**—**	**—**	**2,193**	**5,782**	3,843	—	—	583	4,426
Amortisation of development costs	**(8,546)**	**(613)**	**—**	**(288)**	**(9,447)**	(7,324)	(163)	—	—	(7,487)
Amortisation of acquired intangible assets	**(5,626)**	**(576)**	**(658)**	**—**	**(6,860)**	(5,483)	(576)	(658)	—	(6,717)
Reorganisation costs	**—**	**—**	**—**	**—**	**—**	(5,267)	(133)	(216)	(184)	(5,800)
Service level reporting charges	**1,657**	**—**	**—**	**—**	**1,657**	(11,188)	—	—	—	(11,188)
Segmental operating profit/(loss)	**24,683**	**6,386**	**453**	**(1,298)**	**30,224**	9,477	4,755	(735)	(1,471)	12,026
Group operating expenses					**(1,484)**					(1,386)
Operating profit					**28,740**					10,640
Net finance costs					**(185)**					(299)
Share of result of joint venture					**615**					596
Profit before taxation					**29,170**					10,937
Segmental assets and liabilities										
Segmental assets as reported internally	**46,290**	**5,257**	**5,062**	**1,319**	**57,928**	52,173	5,751	5,514	1,050	64,488
Goodwill and other intangible assets	**76,118**	**10,694**	**7,264**	**2,731**	**96,807**	80,360	11,899	7,923	662	100,844
	122,408	**15,951**	**12,326**	**4,050**	**154,735**	132,533	17,650	13,437	1,712	165,332
Group assets					**559**					458
Investment in joint venture					**113**					98
Group cash and cash equivalents					**15,620**					13,991
Total assets					**171,027**					179,879
Segmental liabilities as reported internally	**(53,802)**	**(7,785)**	**(5,026)**	**(852)**	**(67,465)**	(58,226)	(7,688)	(4,652)	(678)	(71,244)
Group liabilities					**(903)**					(621)
Total liabilities					**(68,368)**					(71,865)
Other segmental information										
Purchase of property, plant and equipment	**4,382**	**274**	**571**	**70**	**5,297**	3,875	520	1,313	71	5,779
Depreciation of property, plant and equipment	**5,100**	**403**	**724**	**32**	**6,259**	4,854	312	615	10	5,791
Purchase of computer software used internally	**773**	**—**	**—**	**7**	**780**	714	—	—	4	718
Amortisation of computer software used internally	**903**	**17**	**—**	**26**	**946**	1,007	17	—	25	1,049

Revenue excludes intra-group transactions on normal commercial terms from the Primary, Community & Acute Care segment to the Community Pharmacy segment totalling £4,856,000 (2017: £4,545,000) and from the Primary, Community & Acute Care segment to the Specialist & Care segment totalling £259,000 (2017: £211,000).

Revenue of £116,295,000 (2017: £114,749,000) is derived from the NHS and related bodies.

Revenue of £10,305,000 (2017: £8,801,000) is derived from customers outside the UK. Non-current assets held outside the UK total £923,000 (2017: £1,076,000).

Notes to the financial statements continued
for the year ended 31 December 2018

5. Revenue
Revenue is analysed as follows:

	2018					2017				
	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000
Software and software licences	**49,610**	**11,337**	**58**	**1,171**	**62,176**	45,123	9,389	55	550	55,117
Maintenance and software support	**38,053**	**1,742**	**1,452**	**—**	**41,247**	38,319	1,609	1,476	—	41,404
Other support services	**6,427**	**8,628**	**18,679**	**1,825**	**35,559**	5,379	8,492	16,258	2,333	32,462
Hosting	**11,908**	**—**	**—**	**—**	**11,908**	11,609	—	—	—	11,609
Training, consultancy and implementation	**10,718**	**948**	**171**	**—**	**11,837**	11,725	482	204	—	12,411
Hardware	**4,954**	**2,389**	**—**	**—**	**7,343**	5,428	1,923	—	—	7,351
	121,670	**25,044**	**20,360**	**2,996**	**170,070**	117,583	21,895	17,993	2,883	160,354

6. Operating profit

	2018 £'000	2017 £'000
The following have been included in arriving at operating profit:		
Research and development expenditure	**18,977**	17,061
Development expenditure capitalised:		
– Software for external sale	**(5,782)**	(4,426)
– Software used internally	**(137)**	(341)
Depreciation of property, plant and equipment:		
– Depreciation of owned assets	**6,259**	5,791
Amortisation of intangible assets:		
– Computer software used internally	**946**	1,049
– Computer software developed for external sale	**9,447**	7,487
– Arising on business combinations	**6,860**	6,717
Reorganisation costs	**—**	5,800
Service level reporting charges (credit)/cost	**(1,657)**	11,188
Operating lease rentals:		
– Land and buildings	**1,231**	1,363
– Plant, machinery and motor vehicles	**908**	875

The total research and development cost shown above of £18,977,000 (2017: £17,061,000) principally relates to relevant staff and directly related costs. Software development costs amounting to £5,782,000 (2017: £4,426,000) have been capitalised in accordance with the criteria set out in IAS 38.

Total fees payable by the Group during the year to KPMG LLP in respect of the audit and other services provided were as follows:

	2018 £'000	2017 £'000
Audit of these financial statements	**49**	37
Amounts payable to the Company's auditor and associated companies in respect of:		
– Audit of the financial statements of subsidiaries of the Company	**143**	174
– All other services	**18**	22
	210	233

7. Finance income

	2018 £'000	2017 £'000
Bank interest	**33**	3
Foreign currency gain	**31**	—
	64	3

8. Finance costs

	2018 £'000	2017 £'000
Interest payable	**166**	178
Amortisation of bank loan issue costs	**83**	77
Foreign currency loss	**—**	47
	249	302

9. Employees

The average monthly number of people (including Directors) employed by the Group during the year was as follows:

	2018 Number	2017 Number
Management and administration	**246**	224
Software support and development	**1,042**	954
Sales, maintenance and training	**447**	421
Others	**289**	307
	2,024	1,906

Staff costs were:

	2018 £'000	2017 £'000
Wages and salaries	**68,805**	69,400
Social security costs	**7,021**	7,044
Pension costs – defined contribution plans	**3,256**	2,830
Share incentive plan (note 28)	**78**	58
Share option expense (note 28)	**766**	597
	79,926	79,929
Dealt with as follows:		
– Charged in Group statement of comprehensive income	**74,007**	75,162
– Capitalised in the development of software for external sale	**5,782**	4,426
– Capitalised in respect of computer software used internally	**137**	341
	79,926	79,929

Notes to the financial statements continued

for the year ended 31 December 2018

10. Income tax expense

	2018 £'000	2017 £'000
Income tax:		
– UK current year tax charge	**8,195**	3,589
– Overseas current year tax charge	**37**	167
– Adjustment in respect of prior years	**609**	730
Total current tax	**8,841**	4,486
Deferred tax:		
– UK current year	**(2,830)**	(1,713)
– Adjustment in respect of prior years	**(463)**	(699)
Total deferred tax	**(3,293)**	(2,412)
Total tax charge in Group statement of comprehensive income	**5,548**	2,074
Factors affecting the tax charge for the year		
Profit before taxation	**29,170**	10,937
Taxation at the average UK corporation tax rate of 19.0% (2017: 19.25%)	**5,542**	2,105
Tax effects of:		
– Expenses/income not allowable/taxable in determining taxable profit	**31**	44
– Adjustment in respect of prior years	**146**	31
– Joint venture reported net of tax	**(117)**	(115)
– Effect of overseas tax rates	**(7)**	(21)
– Deferred tax rate change	**(47)**	30
Tax charge for the year	**5,548**	2,074

The total current year tax charge includes a charge of £315,000 (2017: credit of £3,270,000) in respect of exceptional items.

The main rate of UK corporation tax reduced from 20% to 19% from 1 April 2017 and will further reduce to 17% from 1 April 2020.

11. Earnings per share (EPS)

The calculation of basic and diluted EPS is based on the following earnings and numbers of shares:

Earnings	2018 £'000	2017 £'000
Basic earnings attributable to equity holders	**22,710**	8,053
Reorganisation costs	**—**	5,800
Service level reporting charges	**(1,657)**	11,188
Development costs capitalised	**(5,782)**	(4,426)
Amortisation of development costs and acquired intangible assets	**16,307**	14,204
Tax and non-controlling interest effect of above items	**(1,737)**	(5,129)
Adjusted earnings attributable to equity holders	**29,841**	29,690

Weighted average number of ordinary shares	2018 Number '000	2017 Number '000
Total shares in issue	**63,311**	63,311
Shares held by Employee Benefit Trust	**(320)**	(396)
For basic EPS calculations	**62,991**	62,915
Effect of potentially dilutive share options	**140**	203
For diluted EPS calculations	**63,131**	63,118

11. Earnings per share (EPS) continued

EPS	2018 Pence	2017 Pence
Basic	**36.1**	12.8
Adjusted	**47.4**	47.2
Basic diluted	**36.0**	12.8
Adjusted diluted	**47.3**	47.0

12. Dividends

	2018 £'000	2017 £'000
Final dividend for the year ended 31 December 2016 of 11.7p	**—**	7,355
Interim dividend for the year ended 31 December 2017 of 12.9p	**—**	8,121
Final dividend for the year ended 31 December 2017 of 12.9p	**8,124**	—
Interim dividend for the year ended 31 December 2018 of 14.2p	**8,946**	—
	17,070	15,476

A final dividend for the year ended 31 December 2018 of 14.2p amounting to approximately £8,950,000 will be proposed at the Annual General Meeting on 8 May 2019. If approved, this dividend will be paid on 13 May 2019 to shareholders on the register on 12 April 2019. The dividend is not accounted for as a liability in these financial statements and will be accounted for as an appropriation of distributable reserves in the year ending 31 December 2019.

13. Goodwill

Group	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total Group £'000
Cost					
At 1 January 2017 and 31 December 2017	55,774	6,756	8,605	—	71,135
Acquisition of business (note 33)	1,622	—	—	—	1,622
At 31 December 2018	**57,396**	**6,756**	**8,605**	**—**	**72,757**
Accumulated impairment losses					
At 1 January 2017, 31 December 2017 and 31 December 2018	**16,183**	**—**	**4,616**	**—**	**20,799**
Net book value					
At 31 December 2018	**41,213**	**6,756**	**3,989**	**—**	**51,958**
At 1 January 2017 and 31 December 2017	39,591	6,756	3,989	—	50,336

Impairment tests for goodwill

The Group's cash-generating units (CGUs) are: Primary & Community Care; Acute Care; Community Pharmacy; Specialist & Care; and Patient. These represent the lowest level at which goodwill is monitored for internal management purposes. The goodwill in Primary & Community Care is £23,479,000 (2017: £21,857,000) and in Acute Care is £17,734,000 (2017: £17,734,000).

Each allocation of goodwill is tested annually for impairment and, to confirm whether an impairment of the goodwill is necessary, management compares the carrying value to the value in use.

The value in use for each allocation of the existing goodwill has been calculated using internal Group budgets for the year ending 31 December 2019 to forecast pre-tax cash flows from each CGU (with the key budget assumptions being in relation to revenue growth). These cash flows have then been extrapolated for a further four years assuming average annual growth rates of 3.5% (2017: 3.5%) until 31 December 2023 and then 1% into perpetuity (2017: 1%) for all CGUs except Patient, which is based on management forecasts to 2023 followed by 1% growth into perpetuity. The pre-tax cash flows have been discounted back to 31 December 2018 using a discount rate of 9.1% in relation to Primary & Community Care (2017: 9.1%), 10.1% for Acute Care, Community Pharmacy and Specialist & Care (2017: 10.1%), and 11.1% for Patient. The exercise has confirmed that there has been no impairment in any CGU.

Sensitivity analysis has been performed on the key assumptions which indicated that no reasonably possible change to key assumptions would cause an impairment.

Management has determined the discount rates for each CGU by considering the specific risks relating to the relevant segment. Growth rates beyond the budget period are determined based on a prudent assessment of long-term growth rates.

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14. Other intangible assets

Group	Computer software used internally £'000	Computer software developed for external sale £'000	Computer software acquired on business combinations £'000	Customer relationships £'000	Total £'000
Cost					
At 1 January 2017	5,527	40,527	36,320	36,304	118,678
Additions	718	4,426	—	—	5,144
At 31 December 2017	6,245	44,953	36,320	36,304	123,822
Additions	780	5,782	—	—	6,562
Acquisition of business (note 33)	—	—	5,032	—	5,032
At 31 December 2018	**7,025**	**50,735**	**41,352**	**36,304**	**135,416**
Accumulated amortisation and impairment					
At 1 January 2017	2,288	19,610	20,024	16,139	58,061
Charged in year	1,049	7,487	3,605	3,112	15,253
At 31 December 2017	3,337	27,097	23,629	19,251	73,314
Charged in year	946	9,447	3,747	3,113	17,253
At 31 December 2018	**4,283**	**36,544**	**27,376**	**22,364**	**90,567**
Net book value					
At 31 December 2018	**2,742**	**14,191**	**13,976**	**13,940**	**44,849**
At 31 December 2017	2,908	17,856	12,691	17,053	50,508
At 1 January 2017	3,239	20,917	16,296	20,165	60,617

The accounting policy for intangible assets is set out in note 1.7. The remaining average amortisation period for software developed for external sale is three years. At 31 December 2018 software acquired on business combinations had a remaining amortisation period of three years for both Ascribe and Digital Healthcare, and one year for Indigo 4 Systems. The amortisation period for software acquired during the year with Dovetail Digital Limited (part of the Primary & Community care CGU) is five years. Customer relationships have a remaining amortisation period of five years for Primary, Community & Acute Care, two years for Community Pharmacy, five years for Digital Healthcare, and six years for both Indigo 4 Systems and Medical Imaging.

Company intangible assets comprise computer software developed for external sale with a cost of £3,729,000 (2017: £3,729,000; 2016: £3,729,000) and accumulated amortisation of £776,000 (2017: £164,000; 2016: £nil).

15. Property, plant and equipment

Group	Land and buildings £'000	Computer equipment £'000	Fixtures. fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2017	11,724	38,869	5,107	1,985	57,685
Additions	182	3,958	1,481	158	5,779
Disposals	(7)	(38)	(15)	(1,213)	(1,273)
Exchange differences	(14)	(3)	11	9	3
At 31 December 2017	11,885	42,786	6,584	939	62,194
Additions	213	4,168	792	124	5,297
Acquisition of business (note 33)	—	8	—	—	8
Disposals	—	(47)	(2)	(734)	(783)
Exchange differences	—	(27)	2	2	(23)
At 31 December 2018	**12,098**	**46,888**	**7,376**	**331**	**66,693**
Accumulated depreciation and impairment					
At 1 January 2017	1,552	31,005	1,723	1,218	35,498
Charged in year	330	3,882	1,206	373	5,791
On disposals	(3)	(24)	(12)	(1,098)	(1,137)
Exchange differences	(2)	(1)	5	3	5
At 31 December 2017	1,877	34,862	2,922	496	40,157
Charged in year	341	4,342	1,352	224	6,259
Acquisition of business	—	—	—	—	—
On disposals	—	(46)	(1)	(677)	(724)
Exchange differences	—	1	—	—	1
At 31 December 2018	**2,218**	**39,159**	**4,273**	**43**	**45,693**
Net book value					
At 31 December 2018	**9,880**	**7,729**	**3,103**	**288**	**21,000**
At 31 December 2017	10,008	7,924	3,662	443	22,037
At 1 January 2017	10,172	7,864	3,384	767	22,187

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16. Investments in subsidiaries

Company	£'000
At 1 January 2017	67,356
Capital contribution	48
At 31 December 2017	67,404
Acquisition of business (note 33)	5,363
Acquisition of non-controlling interest (note 34)	8,045
Capital contribution	28,743
At 31 December 2018	**109,555**

The undertakings whose results and financial position are consolidated within the Group financial statements at 31 December 2018 are as follows:

	Country of incorporation	% of issued ordinary shares held
ASC Computer Software (NZ) Limited	New Zealand	100
ASC Computer Software PTY Limited	Australia	100
Ascribe Group Limited	England	100[2]
Ascribe Holdings Limited	England	100
Ascribe Limited	England	100
Ascribe Limited (Kenya)[1]	Kenya	100
Digital Healthcare Limited	England	100[2]
Dovetail Digital Limited	England	90[2]
Egton Limited[1]	England	100[2]
Egton Medical Information Systems Limited	England	100[2]
EMIS Care Limited[1]	England	100[2]
EMIS Health Community Pharmacy Limited[1]	England	100[2]
EMIS Health India Private Limited	India	100[2]
EMIS Health Limited[1]	England	100[2]
EMIS Health Primary Care Limited[1]	England	100[2]
EMIS Health Secondary Care Limited[1]	England	100[2]
EMIS Health Specialist Care Limited[1]	England	100[2]
Footman Walker Associates Limited[1]	England	100
Healthcare Gateway Limited	England	50
Indigo 4 Systems Limited[1] (dissolved 8 January 2019)	England	100
Medical Imaging UK Limited	England	100[2]
MIDRSS Limited	Republic of Ireland	100[2]
Patient Platform Limited	England	100[2]
Protechnic Exeter Limited[1]	England	100
Rx Systems Limited	England	100[2]
Scroll Bidco Limited	England	100

1 Dormant.

2 Held directly by EMIS Group plc.

The above subsidiary undertakings which are not dormant are engaged in providing software and support services to the healthcare market, with the exception of Ascribe Group Limited, Scroll Bidco Limited and Ascribe Holdings Limited which are all holding companies.

All undertakings incorporated in England, with the exception of Healthcare Gateway Limited, have a registered office of Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY. The registered office of Healthcare Gateway Limited is C/O IBB Solicitors, Capital Court, 30 Windsor Street, Uxbridge UB8 1AB.

Other registered offices are as follows: ASC Computer Software (NZ) Limited, Suite 6035, 17b Farnham Street, Parnell, Auckland 1052, New Zealand; ASC Computer Software PTY Limited, Level 22, 567 Collins Street, Melbourne, Victoria, Australia 3000; Ascribe Limited (Kenya), PO Box 40296 – 00100, Nairobi, Kenya; Emis Health India Private Limited, Unit No. A1, Level 3, Shriram The Gateway SEZ, No. 16, G.S.T. Road, Perungalathur, Chennai-600 063, India; and MIDRSS Limited, The Care Centre, Unit 3, Enterprise House, 36 Mary Street, Cork City, Co. Cork, Republic of Ireland.

17. Investment in joint venture

Healthcare Gateway Limited (HGL) is a joint venture with In Practice Systems Limited. Its purpose is to enable the sharing of patient data via a medical interoperability gateway.

The Group has a 50% interest in the ordinary share capital of HGL, acquired on formation for £1. The venture was initially funded by loans from each joint venture party and at 31 December 2018 the Group was owed £34,000 (2017: £169,000).

Aggregate amounts relating to HGL are as follows:

	2018 £'000	2017 £'000
Revenues	**3,628**	3,249
Profit before taxation	**1,518**	1,478
Profit after taxation	**1,231**	1,193
Current assets	**2,484**	1,716
Current liabilities	**(2,257)**	(1,519)
Net assets	**227**	197
Group's interest in net assets of investee at beginning of year	**98**	152
Share of total comprehensive income	**615**	596
Dividends received	**(600)**	(650)
Group's interest in net assets of investee at end of year	**113**	98

18. Inventories

Group	**2018 £'000**	2017 £'000
Finished goods	**1,264**	1,633

19. Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Trade receivables and other receivables	**19,683**	18,703	**—**	20
Accrued income	**10,418**	15,627	**—**	—
Prepayments	**6,122**	5,818	**486**	435
Loan to Employee Benefit Trust	**—**	—	**2,850**	2,859
	36,223	40,148	**3,336**	3,314

Prepayments include unamortised bank fees of £138,000 (2017: £140,000). The loan to the Employee Benefit Trust is non-interest bearing and is repayable on demand.

20. Credit quality of financial assets

The amounts of the maximum exposure to credit risk at the reporting date are as follows:

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Trade receivables and other receivables	**19,683**	18,703	**—**	20
Cash at bank	**15,620**	13,991	**790**	677
	35,303	32,694	**790**	697

No collateral security is held.

Notes to the financial statements continued
for the year ended 31 December 2018

20. Credit quality of financial assets continued
Trade receivables and other receivables
Reporting date balances fall within the following categories:

	Group	
	2018 £'000	2017 £'000
UK governmental health bodies	11,873	9,055
Community pharmacies and associated wholesalers	3,981	4,829
Other third party receivables	3,829	4,819
	19,683	18,703

Trade and other receivables are mainly due one month following the date of the invoice. At the reporting date the aged analysis of trade and other receivables is as follows:

	2018 £'000	2017 £'000
December	13,147	10,368
November	4,358	4,379
October and earlier	2,178	3,956
	19,683	18,703

The Group carries a provision for impairment of trade receivables of £1,262,000 (2017: £697,000).

Cash at bank
The Group's cash is held with a number of different banks. The Moody's long-term credit ratings of those banks and the respective balances held are as follows:

	Group	
	2018 £'000	2017 £'000
Aa3	1,702	148
A1	12,306	12,634
A3	21	560
Baa1	—	126
Baa2	1,584	431
Baa3	7	92
	15,620	13,991

21. Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade payables	2,388	3,825	64	50
Accrued expenses	14,604	9,826	872	571
Other tax and social security	7,966	6,556	—	—
	24,958	20,207	936	621

22. Borrowings

At 31 December 2018 the Group had an undrawn £30,000,000 revolving credit facility in place (inclusive of a £5,000,000 overdraft facility) committed until 30 June 2021, with an accordion arrangement to increase it up to £60,000,000 and a further option to extend the period up to 30 June 2022. Unamortised bank fees of £138,000 (2017: £140,000) have been presented within prepayments in trade and other receivables. The financial covenants in place for these facilities are adjusted EBITA interest cover and net debt to adjusted EBITDA leverage. All covenants were comfortably met during the year and are projected to be met for the remaining period of the facilities.

23. Liquidity risk

The following are the contractual maturities of the Group's financial liabilities, including estimated interest payments:

	Carrying amount £'000	Contractual cash flow £'000	Less than 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
At 31 December 2018						
Trade and other payables due within one year	**24,958**	**24,958**	**24,958**	**—**	**—**	**—**
Contingent acquisition consideration (note 33)	**2,512**	**2,512**	**1,012**	**480**	**1,020**	**—**
Option over non-controlling interest	**2,406**	**5,926**	**—**	**—**	**—**	**5,926**
	29,876	**33,396**	**25,970**	**480**	**1,020**	**5,926**
At 31 December 2017						
Trade and other payables due within one year	20,207	20,207	20,207	—	—	—
	20,207	20,207	20,207	—	—	—

24. Provision

The provision at 31 December 2017 of £11,188,000 was in respect of service level reporting charges in relation to the NHS Digital reporting issue. Charges were confirmed during 2018 at a lower level than originally expected, resulting in a provision release of £1,657,000 in the year.

25. Deferred tax

Group	Property, plant and equipment £'000	Intangible assets £'000	Other temporary differences £'000	Total £'000
At 1 January 2017	893	(10,548)	575	(9,080)
Credited/(charged) to statement of comprehensive income	36	2,478	(102)	2,412
Charged to equity	—	—	(65)	(65)
Exchange differences	—	—	(1)	(1)
At 31 December 2017	929	(8,070)	407	(6,734)
Credited to statement of comprehensive income	50	3,153	90	3,293
Credited to equity	—	—	31	31
Acquisition of business	—	(884)	—	(884)
Exchange differences	—	—	1	1
At 31 December 2018	**979**	**(5,801)**	**529**	**(4,293)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (before offset) for financial reporting purposes:

	2018 £'000	2017 £'000
Deferred tax liabilities	**(5,801)**	(8,444)
Deferred tax assets	**1,508**	1,710
	(4,293)	(6,734)

Notes to the financial statements continued

for the year ended 31 December 2018

26. Other financial liabilities

Company and Group	2018 £'000	2017 £'000
Current		
Contingent acquisition consideration	**1,012**	–
Total	**1,012**	–
Non-current		
Contingent acquisition consideration	**1,500**	–
Option over non-controlling interest	**2,406**	–
Total	**3,906**	–

The current and non-current contingent consideration liabilities are both cash-settled liabilities arising from the acquisition of Dovetail Lab, payable upon the achievement of specified product delivery and revenue targets. The possible minimum and maximum undiscounted amounts of contingent consideration payable in cash are £nil and £2,512,000 respectively. Estimated fair value has been measured based on the future amounts payable, as the impact of discounting is not significant.

A non-current financial liability of £2,406,000 has been recognised in relation to a put option in place over the 10% share capital not currently owned by EMIS Group plc. The put option has been measured at estimated fair value and is exercisable in 2026 (provided the Group has not exercised the related call option between 2023 and 2025), on an exercise price based on a multiple of operating profit for the preceding year. The expected future payment has been discounted to present value using a risk-adjusted discount rate that reflects the expected maturity profile of the consideration being discounted. The significant unobservable inputs are future operating profit and the risk-adjusted discount rate. The estimated fair value would increase/(decrease) if expected future operating profits were higher/(lower), or if the risk-adjusted discount rate were lower/(higher).

27. Share capital and share premium

	Ordinary shares of 1p each		Share premium
Company and Group	Number	£'000	£'000
At 1 January 2017, 31 December 2017 and 31 December 2018	**63,311,396**	**633**	**51,045**

All issued shares are fully paid. At 31 December 2018 the EMIS Group plc Employee Benefit Trust held 290,084 shares in the Company (2017: 348,841 shares).

During the year the Employee Benefit Trust purchased 10,881 shares, representing 0.02% of the issued share capital of the Company, in relation to the exercise of employee share options.

During the year the Employee Benefit Trust disposed of 69,638 shares, representing 0.1% of the issued share capital of the Company, for total consideration of £623,000.

The maximum number of shares held by the Employee Benefit Trust during the year was 348,841, representing 0.6% of the issued share capital of the Company.

28. Share-based payments

At 31 December 2018 outstanding awards to subscribe for ordinary shares of 1p each in the Company, granted in accordance with the rules of the EMIS Group share option schemes and the EMIS Group LTIP, were as follows:

Date of grant	At 1 January 2017	Granted	Lapsed	Exercised	At 1 January 2018	Granted	Lapsed	Exercised	**At 31 December 2018**
2011 Share Option Plan									
11 October 2011	1,419	—	(1,419)	—	—	—	—	—	**—**
1 October 2012	6,765	—	(615)	(6,150)	—	—	—	—	**—**
2 May 2013	1,369	—	—	(1,369)	—	—	—	—	**—**
18 October 2013	29,718	—	(3,048)	(20,955)	5,715	—	(2,286)	(3,429)	**—**
15 October 2014	40,341	—	(8,635)	(24,248)	7,458	—	—	(1,356)	**6,102**
28 April 2015	42,167	—	(11,373)	—	30,794	—	(30,794)	—	**—**
27 April 2016	39,142	—	(7,983)	—	31,159	—	(8,240)	—	**22,919**
21 April 2017	—	82,566	(11,676)	—	70,890	—	(19,182)	—	**51,708**
20 April 2018	—	—	—	—	—	106,359	—	—	**106,359**
	160,921	82,566	(44,749)	(52,722)	146,016	106,359	(60,502)	(4,785)	**187,088**
Weighted average exercise price	823p	899p	851p	713p	896p	853p	900p	679p	**876p**
Unapproved Option Scheme									
1 October 2012	3,233	—	—	(3,233)	—	—	—	—	**—**
27 April 2016	2,317	—	—	—	2,317	—	(772)	—	**1,545**
	5,550	—	—	(3,233)	2,317	—	(772)	—	**1,545**
Weighted average exercise price	878p	—	—	812p	970p	—	970p	—	**970p**
EMIS Group LTIP									
2 May 2013	15,433	—	(15,433)	—	—	—	—	—	**—**
16 January 2014	49,019	—	(23,790)	(25,229)	—	—	—	—	**—**
1 May 2014	213,124	—	(117,786)	(80,748)	14,590	—	—	(14,590)	**—**
28 April 2015	209,362	—	(73,864)	—	135,498	—	(135,498)	—	**—**
27 April 2016	221,730	—	(79,840)	—	141,890	—	(4,254)	—	**137,636**
21 April 2017	—	268,262	(93,647)	—	174,615	—	(4,685)	—	**169,930**
1 May 2017	—	44,518	—	—	44,518	—	—	—	**44,518**
4 September 2017	—	21,953	—	—	21,953	—	—	—	**21,953**
20 April 2018	—	—	—	—	—	294,119	(9,076)	—	**285,043**
6 November 2018	—	—	—	—	—	162,861	—	—	**162,861**
	708,668	334,733	(404,360)	(105,977)	533,064	456,980	(153,513)	(14,590)	**821,941**
Weighted average exercise price	16p	0p	27p	0p	0p	0p	0p	0p	**0p**

The number of vested options which had not been exercised at 31 December 2018 was 6,102 (2017: 27,763). The weighted average share price at the date of exercise for share options exercised in 2018 was £8.77 (2017: £9.39).

The parent company operates share option schemes (the HMRC approved EMIS Group plc 2011 Share Option Plan and the EMIS Group plc Unapproved Option Scheme) and an LTIP scheme. Tranches of options have been granted at market value to senior members of management under the 2011 Share Option Plan, the Unapproved Option Scheme and the 2013 LTIP scheme and at nil cost under all other LTIP schemes. Performance conditions apply to all outstanding awards.

Options are conditional on the employee completing three years' service, other than in certain limited circumstances. The Group has no legal or constructive obligation to repurchase or settle any of the options for cash.

The key assumptions used in the valuations are shown on page 106. The fair values of options with performance conditions have been determined using the Black Scholes Model.

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28. Share-based payments continued

	2011 Share Option Plan					
Grant date	18 Oct 2013	15 Oct 2014	28 April 2015	27 April 2016	21 April 2017	20 April 2018
Exercise period	Oct 2016–Oct 2018	Oct 2017–Oct 2019	April 2018–April 2020	April 2019–April 2021	April 2020–April 2022	April 2021–April 2022
Share price at grant date	656p	737p	901p	970p	899p	853p
Exercise price	656p	737p	901p	970p	899p	853p
Expected volatility	35%	35%	26%	30%	30%	33%
Expected life (years)	3	3	3	3	3	3
Risk-free rate	1.40%	2.37%	2.37%	2.37%	2.37%	2.62%
Expected dividend yield	2.20%	2.33%	2.03%	2.19%	2.73%	3.05%
Fair value per option	141p	164p	152p	190p	164p	175p

	Unapproved Option Scheme
Grant date	27 April 2016
Exercise period	April 2019–April 2021
Share price at grant date	970p
Exercise price	970p
Expected volatility	30%
Expected life (years)	3
Risk-free rate	2.37%
Expected dividend yield	2.19%
Fair value per option	190p

	EMIS Group LTIP							
Grant date	1 May 2014	28 April 2015	27 April 2016	21 April 2017	1 May 2017	4 Sept 2017	20 April 2018	6 Nov 2018
Exercise period	May 2017–May 2024	April 2018–April 2025	April 2019–April 2026	April 2020–April 2027	May 2020–May 2027	May 2020–May 2027	May 2021–May 2028	May 2021–May 2028
Share price at grant date	635p	908p	970p	899p	934p	914p	853p	909p
Exercise price	0p	0p	0p	0p	0p	0p	0p	0p
Expected volatility	35%	26%	30%	30%	30%	30%	33%	33%
Expected life (years)	3	3	3	3	3	3	3	2.5
Risk-free rate	2.37%	2.37%	2.37%	2.37%	2.37%	2.37%	2.62%	2.62%
Expected dividend yield	2.52%	2.03%	2.19%	2.71%	2.71%	2.69%	3.05%	2.98%
Fair value per option	589p	854p	908p	836p	836p	843p	779p	831p

The expected volatility assumption is based on statistical analysis of the historical volatility of the Company's share price.

The Company also operates an HMRC approved Share Incentive Plan, which is open to all UK employees with at least one year's service. Those joining contribute a maximum of the lower of £1,800 a year or 10% of salary. These contributions are used to acquire shares in the Company at market price from the EMIS Group plc Employee Benefit Trust, which holds shares in the Company to satisfy Share Incentive Plan and other employee share scheme requirements.

For every three shares acquired by an employee the Company adds one free "matching" share. The matching shares allocated to members under the scheme during the year had a value of £78,000 (2017: £58,000).

29. Operating lease commitments

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

Group	2018 £'000	2017 £'000
Land and buildings:		
– Due within one year	**1,507**	1,410
– Due between one and five years	**1,427**	3,543
– Due after five years	**1,693**	2,933
Plant, machinery and motor vehicles:		
– Due within one year	**653**	732
– Due between one and five years	**454**	588
	5,734	9,206

30. Capital commitments

At 31 December 2018 the Group had capital commitments principally in respect of freehold property improvements amounting to £1,097,000 (2017: £1,100,000).

31. Cash generated from operations

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Profit before taxation	**29,170**	10,937	**53,534**	19,046
Finance income	**(64)**	(3)	**(150)**	(14)
Finance costs	**249**	302	**171**	230
Share of result of joint venture	**(615)**	(596)	**—**	—
Dividends received	**—**	—	**(54,959)**	(20,086)
Operating profit/(loss)	**28,740**	10,640	**(1,404)**	(824)
Adjustment for non-cash items				
Amortisation of intangible assets	**17,253**	15,253	**612**	164
Depreciation of property, plant and equipment	**6,259**	5,791	**—**	—
Profit on disposal of property, plant and equipment	**(119)**	(193)	**—**	—
Share-based payments	**766**	550	**—**	—
Release of provision	**(1,657)**	—	**—**	—
Operating cash flow before changes in working capital	**51,242**	32,041	**(792)**	(660)
Changes in working capital				
Decrease in inventory	**369**	182	**—**	—
Decrease/(increase) in trade and other receivables	**2,199**	581	**(33)**	(62)
Increase/(decrease) in trade and other payables	**5,264**	(466)	**315**	(305)
Increase in deferred income	**330**	5,308	**—**	—
(Decrease)/increase in provision	**(9,531)**	11,188	**—**	—
Cash generated from/(used in) operations	**49,873**	48,834	**(510)**	(1,027)

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32. Pension commitments

Pension contributions of £3,256,000 (2017: £2,830,000) represent contributions paid on behalf of employees by the Group to various defined contribution schemes.

33. Business combination

On 31 October 2018 the Group acquired 90% of the share capital of Dovetail Digital Limited, a leading early stage UK technology business specialising in blockchain software for the healthcare market. The acquisition is in line with the Group's strategy of identifying sustainable long-term market opportunities delivering connected healthcare systems. The provisional fair values of the net assets acquired, consideration paid and goodwill arising on the transaction are shown in the table below:

Group	£'000
Intangible assets acquired:	
– Computer software	5,032
Property, plant and equipment	8
Trade and other receivables	57
Cash and cash equivalents	374
Trade and other payables	(409)
Deferred income	(105)
Deferred tax	(884)
Total identifiable net assets	4,073
Non-controlling interest	(407)
Goodwill	1,622
	5,288
Consideration:	
Cash consideration	1,776
Contingent consideration – cash settled	2,512
Contingent consideration – equity settled	1,000
Total potential consideration	5,288
Cash and cash equivalent balances acquired	(374)
Contingent consideration not yet settled	(3,512)
Net cash cost of acquisition paid in year	1,402

Goodwill relates principally to the experienced staff within the business.

Provisional fair values of assets and liabilities represent the best estimate of the fair values at the date of acquisition. As permitted by IFRS 3 (Revised) Business Combinations, these provisional amounts can be amended for a period of up to 12 months following acquisition if subsequent information becomes available which changes the estimates of fair values at the date of acquisition.

The post-acquisition contribution of the acquired business to Group revenue and adjusted operating profit is not material to the year under review as the business only traded for two months of the year under the Group's ownership. Had the acquisition occurred on 1 January 2018, the Group's revenue and adjusted operating profit for the year would have been £170,742,000 and £37,234,000 respectively.

In relation to the acquisition, costs of £75,000 have been expensed in the statement of comprehensive income.

Of the £3,512,000 of contingent consideration set out in the table above, £1,012,000 has been recognised as a current financial liability, £1,500,000 as a non-current financial liability and £1,000,000 recognised in equity. There is a further financial liability of £2,406,000 recognised in relation to a put option in place over the 10% share capital not currently owned by EMIS Group plc.

If the equity-settled contingent consideration becomes payable, the possible minimum and maximum of shares in the Company required to do so are nil and 110,668 respectively. Fair value has been measured based on the acquisition date share price of the Company. The impact of any expected dividend cash flows the seller will not receive is not significant.

34. Acquisition of non-controlling interest

On 31 October 2018, the Group acquired the outstanding 21.1% non-controlling interest in Rx Systems Limited ("Rx") for cash consideration of £8,000,000 taking the Group's ownership of the business to 100%. The carrying value of Rx's net assets in the Group's consolidated financial statements on the date of acquisition was £10,442,000.

	£'000
Carrying amount of the additional interest in Rx	**2,203**
Cash consideration paid to non-controlling shareholders	**(8,000)**
Acquisition-related fees	**(45)**
Decrease in equity attributable to owners of the Company	**(5,842)**

35. Related party transactions

Key management compensation

Key management includes Executive and Non-executive Directors and members of the Group Executive Team. The compensation paid or payable to key management for employee services is shown below:

Key management	2018 £'000	2017 £'000
Salaries and other short-term employee benefits	**4,251**	2,834
Share-based payments	**472**	386
Termination benefits	**–**	1,033
Post retirement benefits	**169**	159
	4,892	4,412

Directors' emoluments	2018 £'000	2017 £'000
Aggregate emoluments	**1,692**	964
Gains on exercise of share options	**–**	588
Termination benefits	**–**	106
Pension costs – defined contribution plans	**70**	69
	1,762	1,727

Retirement benefits are accruing to two (2017: two) Directors under defined contribution personal pension schemes.

Highest paid Director	2018 £'000	2017 £'000
Aggregate emoluments	**862**	115
Gains on exercise of share options	**–**	445
Termination benefits	**–**	106
Pension costs – defined contribution plans	**60**	22
	922	688

Other related party transactions

Transactions between the Group and:	2018 £'000	2017 £'000
Joint venture – Healthcare Gateway Limited		
Sales of goods and services in year	**795**	1,383
Amounts owed to related party at year end	**34**	91
Key management personnel		
Sale of motor vehicles at market value	**2**	–

Transactions between Company and subsidiaries

The Company enters into transactions with its subsidiary undertakings in respect of internal funding and the provision of certain services which are procured by the Company. Such services are recharged based on the utilisation by the subsidiary undertaking. The amounts outstanding from subsidiary undertakings to the Company at 31 December 2018 totalled £17,324,000 (2017: £52,119,000). Amounts owed by the Company at 31 December 2018 totalled £14,050,000 (2017: £48,494,000).

The Company and certain subsidiary undertakings have given guarantees in support of the Group's banking facility, a revolving credit facility of £25,000,000 and an overdraft facility of £5,000,000.

Five-year Group financial summary

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Revenue	**170,070**	160,354	158,712	155,898	137,639
Recurring revenue	**140,681**	133,537	128,483	123,027	102,703
Reported operating profit	**28,740**	10,640	23,539	11,430	29,121
Adjusted operating profit[1]	**37,608**	37,406	38,753	36,553	32,639
Profit before tax	**29,170**	10,937	25,333	10,932	28,540
Earnings per share – basic	**36.1p**	12.8p	30.4p	7.2p	35.3p
Earnings per share – adjusted[1]	**47.4p**	47.2p	49.4p	45.3p	39.5p
Dividends payable to Company's shareholders in respect of year	**17,896**	16,245	14,705	13,307	11,533
Dividends per ordinary share	**28.4p**	25.8p	23.4p	21.2p	18.4p
Total equity	**102,659**	108,014	114,142	107,046	114,908
Reported cash generated from operations	**49,873**	48,834	43,657	42,711	44,856
Adjusted cash generated from operations[2]	**54,469**	49,652	41,073	36,528	38,333
Net cash/(debt)	**15,620**	13,991	(430)	(9,109)	(11,817)
Average number of employees	**2,024**	1,906	1,875	1,863	1,611

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items. Earnings per share calculations also adjust for the related tax and non-controlling interest impact.

2 Stated after deduction of capitalised development costs and before the cash impact of exceptional items.

Shareholder information

Internet

The Group's investor page can be found at www.emisgroupplc.com/investors. This site is regularly updated to provide information about the Group. In particular, the share price and all of the Group's press releases and announcements can be found on the site. The annual report and accounts will be published on www.emisgroupplc.com/investors/financial-reporting-and-presentations. The maintenance and integrity of the website is the responsibility of the Directors. The auditor does not consider these matters.

Registrar

Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details at Link Asset Services, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, tel. 0871 664 0300, calls cost 12p per minute plus your phone company's access charge. If you are outside the UK, please call +44 371 664 0300. Calls outside the UK will be charged at the applicable international rate. The registrar is open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales. The registrar's website is www.signalshares.com. This will give you access to your personal shareholding by means of your investor code which is printed on your share certificate or statement of holding. A user ID and password will be sent to you once you have registered on the site.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. More detailed information can be found at www.moneyadviceservice.org.uk.

You can find out more information about investment scams, how to protect yourself and report any suspicious telephone calls to the Financial Conduct Authority (FCA) by visiting their website (www.fca.org.uk/scamsmart) or contacting them on 0800 111 6768.

Payment of dividends

Shareholders may find it more convenient to make arrangements to have dividends paid directly into their bank account. The advantages of this are that the dividend is credited to a shareholder's bank account on the payment date, there is no need to present cheques for payment and there is no risk of cheques being lost in the post. To set up a dividend mandate or to change an existing mandate, please contact Link Asset Services, whose details are opposite.

Share dealing services

The sale or purchase of shares must be done through a stockbroker or share dealing service provider. The London Stock Exchange provides a "Locate a broker" facility on its website which gives details of a number of companies offering share dealing services. For more information, please visit the private investors section at www.londonstockexchange.com. Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or to sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Share price information

The latest information on the share price is available at www.emisgroupplc.com/investors/shareholder-information.

Directors and advisers

Directors

Executive

Andy Thorburn – Chief Executive Officer

Peter Southby – Chief Financial Officer

Non-executive

Mike O'Leary – Chairman

Robin Taylor – Senior Independent Non-executive Director

Kevin Boyd – Independent Non-executive Director

Andy McKeon – Independent Non-executive Director

David Sides – Independent Non-executive Director

Company Secretary

Christine Benson

Company number

06553923 (England and Wales)

Registered Office

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Leeds LS1 4DA

Nominated adviser and broker

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Produced by
designportfolio

“EMIS Group is well positioned for future growth.”

Andy Thorburn
Chief Executive Officer

EMIS Group plc

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