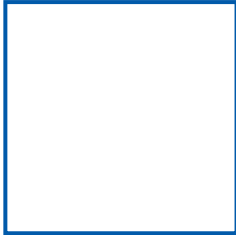


science group plc



Annual Report and
Financial Statements
2017



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Strategic Report

Chairman's Statement

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international consultancy providing applied science, product development, technology advisory and regulatory services to a client base in medical, food & beverage and commercial markets. Through organic investment and acquisitions, funded primarily from operating cash flow, the Group continues to develop an integrated offering of science-based services.

In 2017, Science Group again delivered strong operating margins, balancing the inherent volatility associated with a project-based consultancy through the broader service portfolio established via the acquisitions. In addition, the Group maintains a robust balance sheet with cash resources and long term, low-cost debt supported by significant freehold property assets, providing both resilience to economic volatility and opportunity for investment when appropriate.

Financial Summary

For the year ended 31 December 2017, Group revenue, including four months' contribution from the September acquisition, was £40.8 million (2016: £36.9 million) of which Core Business services revenue was £38.4 million (2016: £34.2 million). North America continues to be a major market for the Group accounting for 43% of Core Business revenue in 2017 (2016: 44%) and Europe (excluding the UK) accounted for 36% (2016: 27%). In 2017, the Group revenue benefitted by £0.7 million relative to foreign exchange rates during the prior year.

Adjusted operating profit for the year ended 31 December 2017 was £6.9 million (2016: £6.2 million). While the Group profit benefitted by approx. £0.6 million due to changes in foreign exchange rates relative to 2016, the Board took the opportunity to invest a proportion of this benefit in the organic development and infrastructure of the business. Statutory profit before tax was £3.9 million (2016: £3.0 million) resulting in basic earnings per share ('EPS') of 7.7 pence (2016: 6.8 pence). An alternative performance measure of adjusted basic EPS which applies consistent tax rates was 12.8 pence (2016: 11.4 pence). (Adjusted operating profit and other Alternative Performance Measures used in this report are defined in the Finance Director's Report and within the notes to the financial statements.)

Following the significant acquisition in September 2017 of Technology Sciences Group ('TSG'), with the cash consideration of £13.2 million (net cash outflow of £10.4 million) being funded from existing cash resources, the Group's cash balance at 31 December 2017 was £19.9 million (2016: £26.0 million) with net funds of £6.0 million (2016: £11.3 million) including bank debt of £13.9 million (2016: £14.7 million). (These figures exclude cash held separately on behalf of clients to pay regulatory registration fees.) The Group's bank debt is tied to interest rate swaps to produce a net fixed rate (effectively 3.5%) to 2026 and is secured on the Group's freehold property assets which have a combined balance sheet carrying value of £21.7 million (2016: £21.9 million).

The Board is proposing to increase the dividend by 5% to 4.4 pence per share (2016: 4.2 pence per share), at a total cost of £1.7 million (2016: £1.7 million). Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be payable on 11 May 2018 to shareholders on the register at the close of business on 20 April 2018. The Board will also seek approval from shareholders at the AGM for authority to acquire up to 10% of the issued share capital of the Company so that, if deemed appropriate and in the best interests of shareholders, the Company may make share purchases in the coming year. Due to the shareholding of the Chairman (34.1% at 26 February 2018), this authority will, as in previous years, be conditional on Takeover Panel approval of a waiver of Rule 9 of the UK Code on Takeovers and Mergers and on the passing of a general authority Panel waiver by shareholders.

Business Overview

The strategy and structure of the Group is evolving around three main axes of Service Offering, Market Sector and Geography. Science Group has four primary Service Offerings: Applied Science; Product Development; Technology Advisory; and Regulatory Services. Organic growth opportunities arise from marketing these services into Vertical Market Sectors (Medical, Food & Beverage and Commercial) and Geographies (North America, Continental Europe, UK and Rest of World).

During the past year, the Board has been increasing the integration of the Group's service offerings to maximise the synergies and scale benefits from the acquisition strategy. The science teams in the Sagentia and Leatherhead businesses have now been integrated into a single Applied Science function and all the Group's Technology Advisory businesses, including OTM, have been merged into a single organisation structured into vertical market sectors which align with other parts of the Group. More recently, potential synergies between the European arm of TSG and the Leatherhead Regulatory team are being evaluated, in order to realise the benefits from the scale and international coverage of these resource teams.

In the year to 31 December 2017, the Product Development services, branded Sagentia, delivered a very strong performance in the Medical sector. This momentum has continued into the start of 2018 and reflects the success of the investments made over the past two years. However, the performance in the Commercial sector was disappointing, resulting in a review of this market strategy and the appointment through internal promotion of a new Managing Director to lead the business.

Leatherhead Food Research ('Leatherhead') has now become the Group's primary Food & Beverage market brand across all geographies. As reported at the Interim Results and as expected, revenue from the original Leatherhead activities declined relative to prior year due to the business transition. While this reduction has been slightly greater than originally anticipated in some areas, the market-leading Regulatory Services has performed well; the benefits of the integration and repositioning of the Group's Applied Science offering are starting to be realised; and the marketing of Advisory services through the Leatherhead channel is gaining momentum.

Strategic Report (continued)

Chairman's Statement (continued)

The integration of TSG, acquired in September, made good progress due to an intensive programme. In the North American operations, essential improvements in processes and operating/financial controls were implemented and the IT systems, along with employee payroll and benefits, were successfully separated from the vendor by year end in line with the integration plan. In Europe, the cost base has been realigned ahead of the REACH registration deadline in May 2018 and a restructuring of the organisation has been undertaken to establish a more integrated European operational model to realise the benefits from the Group's scale and international presence. While acquisition integration is inevitably disruptive in the short-term, the Board remains confident about the potential of TSG both in terms of the markets TSG serves and also the incremental added-value to the Group's wider client base. Revenue from TSG in the period from acquisition to 31 December was £4.9 million and acquisition integration costs were £0.8 million in line with the Board's expectations. As announced at the time of the acquisition, the consideration for TSG includes a contingent deferred component of £0.5 million payable in December 2019, explained further in the Notes to the Financial Statements.

The TSG acquisition significantly expanded the Group's geographical footprint, particularly in the strategically important North American market which is now serviced by offices in 4 US states and around 50 employees. Most Science Group businesses have a high dependence on the USA and continue to invest in developing this market. As a result, the Board has now appointed a President of Science Group North America, to strengthen the leadership and coordination of the Group's businesses. The Group's footprint in Europe was also significantly expanded by TSG and the organisation is evolving to adopt a more integrated operating model. A new Managing Director is being appointed and a new senior role of European Regulatory Operations Director has been created and filled through internal promotion, in order to drive the European regulatory strategy.

As the Group enters 2018, the momentum from 2017 has continued and most business areas are actively recruiting. However there are two particular risk factors that the Board are monitoring. Firstly, the strengthening of Sterling, particularly against the US Dollar, means that if foreign exchange rates remain at the current levels, the Group would probably report a comparative negative effect on Group revenue and profit in the current year relative to 2017. The second factor is wage inflation which is noticeably increasing. This inflation is particularly, but not exclusively, apparent in scientific and technical areas. As a result, the Board is taking appropriate actions to mitigate this effect in terms of productivity, process efficiency, fee rates and margin leakage. In summary, having recognised the changes in these external factors during the latter part of 2017, the Board has been pro-active in addressing these risks and will continue to monitor.

Share Option Plan & Long Term Incentive Programme

Over the past eight years, Science Group plc has been transformed from a small, loss-making Cambridge consultancy into a very profitable international Group with approx. 400 employees and offices in the UK (4 locations), USA (4 States), Germany, Spain, Slovenia, Slovakia and Poland along with presence in Canada, France and Ireland. The Group's science-based services strategy targets vertical market sectors with a flexible structure and collaborative culture to maximise resource utilisation and operational efficiency.

As a result of the successful execution of the strategy, Science Group has:

- Increased revenue (on a run rate basis) by approx. 150%;
- Turned a loss-making business into a profitable Group with adjusted operating margins in excess of 15%;
- Increased NAV per share by approx. 70%; and
- Increased the share price by over 700%.

With the exception of an equity fund-raising in 2010 to stabilise the original Sagentia business, and minor share issues related to the partial consideration/retention of founder managers of acquired companies, this success has been primarily funded from operating cash flow. Due to the share buy-back programmes, the number of shares in issue (excluding treasury shares) at 31 December 2017 is in fact approx. 5% less than that at the end of 2010.

The Group strategy requires the organisation to be stable, with key management and staff focused on the delivery of the strategy and associated operating plans. Development and retention of ambitious, intelligent, committed managers is essential and provides the primary source of talent to lead the Group's businesses and for succession planning. Similarly, as a consultancy, the employees of Science Group are the primary operational asset and comprise an outstanding team of international, highly qualified scientists, engineers, consultants and regulatory experts. These skills are in high demand. While remuneration structures currently include profit share, management bonus and share option schemes, the executive and senior business, technical and operational management are regularly targeted by other organisations.

The Board has therefore reflected on how to retain, incentivise and reward the long term contribution of senior management and key staff of the Group. Following a review of possible schemes, the Board has concluded that the simplest and most appropriate model can be derived from amendments to the existing Performance Share Plan ('PSP'). This process has also resulted in a review of some other aspects of the PSP and the following proposals regarding the PSP will therefore be recommended to shareholders at the Annual General Meeting.

Strategic Report (continued)

Chairman's Statement (continued)

In summary:

1. As set out at the time of the acquisition of TSG, the Board will seek approval for the exceptional grant of up to 400,000 PSP options related to the acquisition to be incremental to the Plan Limit defined in the 2013 Performance Share Plan.
2. With the expansion of the Group, whilst actually decreasing the number of shares in issue, the current annual limit on grants under the PSP of 1% of issued share capital ('ISC') may not be sufficient to provide an adequate incentive/retention tool for the enlarged employee base. The Board will therefore propose to increase this limit to the lesser of 1.5% of ISC or 600,000 options.
3. At present, the PSP Scheme Rules provide for a 3 month exercise period after termination of employment. It is proposed that all future grants would expire at termination of employment, removing this grace period except in the exceptional circumstance when the employee has been unable to exercise the share options between resignation and termination due to the company being in a close period throughout that time. In such circumstances, the Remuneration Committee would have discretion but not obligation to defer the lapse date of the options for up to 1 month following the end of the relevant close period but such extension not exceeding 3 months from the employee termination date.
4. An Addendum to the PSP is to be proposed to better align the PSP scheme for USA employees and avoid a potential unintended personal tax liability for the individual prior to exercise of the option ('USA Addendum').
5. An Addendum to introduce a Long Term Enhanced Executive Incentive ('EEI Addendum') to enable the Remuneration Committee to grant more substantial share options, every 3 years, to a small number of key senior managers at Executive Team, Managing Director, or equivalent technical/operating level, but excluding any employee holding 1.5% or more of ISC in shares or share options. These individual awards of between 50,000 and 250,000 options would vest after 5 years with performance targets based on share price appreciation. For the proposed 2018 EEI grant, 50% or 100% of the award would vest based on achieving share price targets of £3.30 or £4.40 respectively, with pro-rata vesting between these two figures. The maximum aggregate award amount at a single grant issue under the EEI Addendum would be 1.2 million options. It is proposed that each future grant under the EEI Addendum will also require specific shareholder approval.

Employee Diversity

In 2017, the Science Group employee base continued to evolve and the majority of employees in the Group are now women, including around 40% of senior grades. In any organisation, this would be noteworthy, but in a science-based consultancy this is more significant, although there are differences in the gender profiles between business areas. For comparison, in 2010 it is estimated that women accounted for approx. 10% of the employee base and a lower proportion of senior managers. In addition, during the same period, the ethnic and cultural diversity of Science Group has been transformed into a multi-national organisation supporting our clients in over 30 languages.

There is no evidence to correlate this change in employee profile with the financial success of the Group during the period. But there has been a definite change in the culture of the Group through this transformation, as employee policies and practices have been progressively realigned to reflect the diversity of the organisation. Science Group is today a more dynamic and culturally rich environment where progress is based on merit, contribution and achievement, regardless of background, and that provides a foundation for the future benefit of all stakeholders in the Company.

Summary

In aggregate, the financial performance of the Group in 2017 was in line with the Board's expectations, balancing investment in the future with continued strong operating margins and cash flow. The Group's strategy of broadening the market and service offerings through acquisition has produced a differentiated, but increasingly integrated, science-based services offering with an enhanced resilience to individual market volatilities.

At the same time, the Board recognise a number of external factors which create a changing dynamic in the market environment. However, by recognising these effects early and taking appropriate action to mitigate the impact, the Board remains confident on the future prospects of the Group.

Finally, it should be noted that the acquisition of TSG, like prior acquisitions, was funded from the Group's existing cash resources. Even after this significant capital deployment, Science Group plc retains a strong capital structure along with a freehold property asset base which enables access to fixed rate, long term, low-cost debt. This foundation enables the Group to continue to evaluate both organic and acquisitive investment opportunities.

Martyn Ratcliffe
Chairman

Strategic Report (continued)

Finance Director's Report

In the year ended 31 December 2017, the Group generated revenue of £40.8 million (2016: £36.9 million). Revenue from Core Business activities, that is revenue derived from delivering projects and consultancy services and materials recharged on these projects, increased to £39.7 million (2016: £35.8 million). TSG contributed £4.9 million revenue for the 4 month period ended 31 December 2017. Non-Core revenue, comprising property and associated services income derived from space let in the Harston Mill facility, was £1.1 million (2016: £1.1 million).

Adjusted operating profit increased to £6.9 million (2016: £6.2 million), benefitting from a favourable foreign exchange environment and adjusted operating profit margin remained strong at 16.9% (2016: 16.8%). The Board are anticipating the foreign exchange environment to be less favourable in 2018 and, if the current (February 2018) exchange rates are sustained, the effect would most likely be an adverse variance relative to 2017. (Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs, share based payment charges and other specified items that meet the criteria to be adjusted. Refer to Note 1 for further information on this and other alternative performance measures).

Statutory operating profit of £4.4 million (2016: £3.4 million) included one-off costs related to the TSG acquisition of £0.8 million (2016: £0.3 million related to the 2015 acquisitions). Statutory profit before tax was £3.9 million (2016: £3.0 million) and statutory profit after tax was £3.0 million (2016: £2.7 million).

A significant proportion of the Group's revenue is denominated in US Dollars and Euros and changes in exchange rates can have a significant influence on the Group's financial performance. In 2017, £14.0 million of the Group Core Business revenue was denominated in US Dollars (2016: £12.4 million) and £4.1 million of the Group Core Business revenue was denominated in Euros (2016: £3.9 million). The exchange rates during the year resulted in a revenue and operating profit benefit, when compared to the rates in effect during 2016, of £0.7 million and £0.6 million respectively. The Board determined to use some of this benefit to accelerate some investment programmes. The Group continues to monitor the volatility of the exchange rate and to date has decided not to utilise foreign exchange hedging instruments.

The tax charge in the Consolidated Income Statement of £0.9 million (2016: £0.2 million) results in an effective tax rate of 22.2% (2016: 7.4%). The various significant adjustments affecting the prior years' tax charges have largely ceased with the historic tax losses being fully utilised where possible and the Research and Development tax claim in 2017 of £0.3 million being recognised in the year to which it relates (2016 included an R&D credit of £0.7 million relating to the 2015 and 2016 financial years). While the Group effective tax rate was anticipated to be below the UK nominal corporation tax rate

due to the benefit of R&D tax credits, in 2017, a one-off tax cost of £120,000 has been recognised in relation to the Tax Cuts and Jobs Act in the US due to the European arm of TSG being partially owned by the TSG US company.

At 31 December 2017, Science Group had £11.4 million (2016: £11.8 million) of tax losses carried forward of which £0.6 million (2016: £1.4 million) relate to trading losses which are anticipated to be used to offset future trading profits. The remaining tax losses of £10.8 million (2016: £10.4 million) have not been recognised as a deferred tax asset due to the low probability that these losses will be able to be utilised.

Statutory basic earnings per share ('EPS') was 7.7 pence (2016: 6.8 pence). In order to provide a measure that demonstrates the underlying value generated by the Group at a per share level, an adjusted earnings per share measure has been presented. Adjusted basic earnings per share, which excludes adjusting items and includes a corporation tax charge on adjusted profit before tax at the Group's blended corporation tax rate, increased to 12.8 pence (2016: 11.4 pence).

Cash generated from operations excluding Client Registration Funds ('CRF') was £7.8 million (2016: £11.6 million). Reported cash generated from operations in accordance with IFRS was £8.6 million (2016: £11.6 million). The difference in these two metrics relates to the fact that TSG, particularly in the USA, processes regulatory registration payments on behalf of clients. These CRF monies are, as far as is practicable, now held separately from the Group cash balances. The alternative performance measures, adjusting for CRF, more accurately reflect the Group's cash position and cash flow.

The Group's term loan with Lloyds Bank plc ('Lloyds') was renewed in 2016 as a 10 year fixed term loan of £15 million, secured on the freehold properties at Harston and Epsom. Phased interest rate swaps hedge the loan resulting in a 10 year fixed effective interest rate of 3.5%, comprising a margin over 3 month LIBOR and the cost of the swap instruments. The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repayable on expiry of the loan in 2026. The term loan has no operating covenants as long as the Group net bank debt is less than £10 million. If this threshold is crossed, two conditions apply: a financial covenant, measured half-yearly on a 12 month rolling basis, such that annual EBITDA must exceed 1.25 times annual debt servicing (capital and interest); and a security covenant whereby the loan to value ('LTV') ratio of the securitised properties must remain below 75%. If either of these conditions are breached, a remedy period of 6 months is provided, during which time the EBITDA or LTV condition can be remedied or the net bank debt can be reduced to less than £10 million. The Group has adopted hedge accounting for the interest rate swap related to the bank loan under IAS 39, *Financial Instruments*, and the gain on change in fair value of the interest rate swaps was £30,000 (2016: £0.2 million) which was recognised directly within equity.

Strategic Report (continued)

Finance Director's Report (continued)

The Group has maintained its strong balance sheet with shareholders' funds at 31 December 2017 of £37.7 million equivalent to 95.9 pence per share in issue (2016: shareholders' funds of £36.0 million, equivalent to 91.5 pence per share in issue). This includes the Group's freehold properties in Harston, near Cambridge and in Epsom, Surrey, held on the balance sheet at an aggregate value of £21.7 million (2016: £21.9 million). The Board considers it appropriate to undertake formal property valuations at least every 5 years and will therefore be initiating this process in 2018 for both properties to align the valuation schedules.

The Group cash position (excluding CRF) at 31 December 2017 was £19.9 million (2016: £26.0 million) and net funds were £6.0 million (2016: £11.3 million). CRF of £0.9 million (2016: £nil) were held at the year end. Working capital management during the year continued to be a focus with debtor days of 45 days at 31 December 2017 (2016: 42 days) while combined debtor and WIP days reduced to negative 4 days (2016: negative 13 days) following the inclusion of TSG. (WIP is defined as the net of accrued income and payments received on account).

Net-funds-plus-freehold-property-per-share in issue, an alternative performance measure (refer to the notes to the financial statements for the calculation) was 70.3 pence per share (2016: 84.5 pence per share) reflecting the cash deployed in the acquisition of TSG in September 2017.

At 31 December 2017, the Company had 39,367,128 ordinary shares in issue (2016: 39,328,794) and held an additional 2,694,907 shares in treasury (2016: 2,733,241).

In summary, Science Group has again delivered a performance in line with the Board's expectations, with strong profitability and excellent cash flow. This value-enhancing model has enabled the Group to expand through acquisition without, to date, requiring equity capital fund raising, whilst establishing and maintaining a very robust balance sheet.

Rebecca Archer
Finance Director

Strategic Report (continued)

Key Performance Indicators

The key performance indicators ('KPIs') are operating profit, cash flow and the alternative performance measures as disclosed in Note 1 in the Notes to the Financial Statements. Profitability of the business is managed primarily via the review of revenue and headcount. (Secondary measures of consultant utilisation and daily fee rates are used internally but are not disclosed due to their commercial sensitivity). Working capital is reviewed via measures of debtor days and combined 'debtor and WIP' days. Performance against KPIs is reported in the Finance Director's Report.

Principal Risks and Uncertainties

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

Potential downturn in the market for outsourced services

Science Group is dependent on the global market for outsourced science-based services. An economic downturn or instability may cause clients to delay or cancel projects and/or related services, or to use internal resources to achieve their business goals.

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

Dependence on key personnel

Science Group's business relies on recruiting and retaining highly qualified technical experts on whom the business depends to deliver its science-based services. Failure to recruit and retain key staff could threaten the business's ability to deliver projects to its clients or to win new work.

The Group's expansion also places greater demands on the Group's management and infrastructure, across a wider range of geographical markets. Failure to recruit and retain key management and functional staff could increase the risks associated with operational and financial controls; sales and marketing; information technology and other functional support areas.

The risks associated with recruitment and retention of key personnel can be compounded by upward pressure on salaries and remuneration packages due to skill shortages or economic inflation.

The Group seeks to mitigate this risk by encouraging staff retention through both competitive remuneration packages and a stimulating work environment. In addition to base salary, remuneration can include profit share/annual bonus, pension, health benefits, life assurance and share option schemes; the remuneration components are reviewed regularly. Efforts are also made to foster a vibrant, dynamic and supportive environment for employees, which offers a diversity of technically challenging work for large and small companies across a range of industries and specialist market, science & technology areas. The Group also provides career development paths and training support.

Reputational risk

Failure to deliver project deliverables to an agreed budget, timetable and quality may result in reputational damage to Science Group that may adversely affect future sales.

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

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

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

Furthermore, following the UK referendum on membership of the European Union ("Brexit") in June 2016, there is uncertainty regarding the short, medium and long-term impact this may have on markets, financial circumstances of customers and/or the future trading relationships between the UK and other countries both in Europe and in other parts of the world.

The Group seeks to mitigate this risk by actively managing customer relationships, including credit limits where, if appropriate, may require the payment in advance of all or part of the estimated costs which could have an impact on revenue.

Project over-run or failure to meet technical milestones

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

Strategic Report (continued)

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

Currency exchange rates

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

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

Investment in acquisitions

The Group has grown through the acquisition of companies with compatible science-based service offerings. The Board considers further acquisitions to be a core part of the Group's strategy. Acquisitions can increase the risk profile of the Group; unknown liabilities may be identified post-acquisition; the revenue of the acquired business may decline; key staff may leave; and other unforeseeable problems may arise.

The Group seeks to mitigate such risks by establishing an integration team at the time of the acquisition who are rapidly deployed to instil the Group's financial and operational controls into the acquired company as fast as practicable. While this team comprises experienced managers from within the Group, in every acquisition, unforeseen challenges arise and an evolving iterative integration process is required.

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

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

Corporate Responsibility

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

Governance

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

More information on Science Group's corporate governance can be found on page 12.

Employees, training and development

Science Group's employees are the business' primary asset and the Board and Executive Team are committed to their career development. The Group makes a focused effort to offer bespoke training and mentorship to allow each individual to thrive within their environment and realise their personal potential. Formal training and career development is offered to staff of all levels through internal and external programmes that cover technical, business and managerial advancement opportunity. Beyond formal training, employees also lead informal lunchtime sessions on a regular basis to enable knowledge and skills transfer amongst teams.

Employee performance is aligned to the Group's objectives through an annual performance review process and ongoing project management, line management and mentorship feedback. Employees are kept up to date with information about the Group's activities through regular briefings and other media. Science Group operates a Group bonus/profit share schemes to qualifying employees. The Group also runs share option schemes which are at the discretion of the Remuneration Committee and in which executives and managers are invited to participate on the basis of recommendations made by the Executive Team to the Remuneration Committee.

Diversity and inclusion

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

Strategic Report (continued)

Corporate Responsibility (continued)

The gender ratio for the number of persons employed by Group at the end of the year are set out in the table below. The change in the volume gender mix is primarily related to the acquisition of TSG and the predominance of female scientists and advisors in the regulatory field, whereas product development services tend to attract a greater proportion of male scientists and engineers.

	31 December 2017				31 December 2016			
	Male		Female		Male		Female	
	No	%	No	%	No	%	No	%
Plc Board of Directors	3	75%	1	25%	3	75%	1	25%
Corporate Executive Team (incl. Company Secretary)	2	50%	2	50%	2	50%	2	50%
Senior management & staff (>£60,000 per annum salary)	67	56%	52	44%	56	84%	11	16%
Other employees	112	41%	160	59%	99	43%	129	57%
Total employees	184	46%	215	54%	160	53%	143	47%

Notes:

- Employees are only allocated to one category. For example, where an individual is a member of the plc Board, that person is not then included within the other classifications;
- Subsidiary directors have not been separately identified in the above table.

Health and safety

Science Group endeavours to ensure that the working environment is safe and conducive to healthy, safe and motivated employees. The Group has a Health and Safety at Work policy which is reviewed regularly by the Board. The Board Executive Director, responsible for health and safety, is the Finance Director with day-to-day responsibility being undertaken by the Company Secretary.

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

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

Research and development

Science Group provides outsourced science-based services and therefore has an inherent and continuing commitment to high levels of research and development, primarily on behalf of its clients but also, when appropriate, on its own behalf.

Environment

Science Group's policy with regard to the environment is to ensure that it understands and effectively manages the actual and potential environmental impact of its activities. The Directors feel that due to the nature of the Group's operations, it does not have a significant impact on the environment. The Group strives to seek to minimise its carbon impact and recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to reduce waste and, where practicable, re-use and recycle consumables.

The Group's operations are conducted such that compliance is maintained with legal requirements relating to the environment in areas where the Group conducts its business. During the period covered by this report Science Group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

Approved by the Board of Directors on 27 February 2018 and signed on its behalf by:

Martyn Ratcliffe
Chairman

Rebecca Archer
Finance Director

Report of the Directors

The Directors present their annual report on the business of Science Group plc together with Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2017.

Accompanying the Report of the Directors is the Strategic Report.

Review of the business and its future development

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

Cautionary statement

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

Results and dividends

The results of the Group are set out in detail on page 23.

Subject to shareholder approval at the next Annual General Meeting, the Directors propose to pay a dividend of 4.4 pence per share for the year ended 31 December 2017 (2016: 4.2 pence per share).

Capital structure

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

Financial instruments and risk management

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

Substantial shareholdings

As at 26 February 2018, Science Group had been notified of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% held
Martyn Ratcliffe	13,412,906	34.07%
Canaccord Genuity Group Inc	6,800,979	17.28%
Ruffer LLP	5,188,870	13.18%
Miton Asset Management	1,943,359	4.94%
Charles Stanley & Co	1,409,990	3.58%

Directors

The Directors and associated biographies are listed on page 11.

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

Directors' interests in shares and contracts

Directors' interests in the shares of Science Group plc at 31 December 2017 and 31 December 2016, and any changes subsequent to 31 December 2017, are disclosed in Note 8. None of the Directors had an interest in any contract of significance to which Science Group was a party during the financial year.

Annual General Meeting

The Annual General Meeting ('AGM') will be held at 9am on 19 April 2018 at 2nd Floor, 48-49 St James' Street, London, SW1A 1JT. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

Purchase of own shares

At the AGM on 18 May 2017, shareholders approved a resolution for the Company to buy back up to 10% of its own shares. This resolution remains valid until the conclusion of the next Annual General Meeting in 2018 or 30 June 2018 if earlier. As at the date of this report, the Company has bought back no shares pursuant to this authority. For further information refer to Note 20.

Employees

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

Donations

The Company operates a scheme whereby it will, on a discretionary basis, match charitable donations raised by employees up to a specified limit. Charitable donations related to this programme were similar to the prior year. In addition in 2017, £2,500 was donated to each of 4 UK charities related to the emergency services following the terrorist attacks in London and Manchester. As a result, total charitable contributions made in 2017 were £11,000 (2016: £1,000). No political donations were made during the period (2016: £nil).

Report of the Directors (continued)

Post balance sheet events

Post balance sheet events are disclosed in Note 27 to the Financial Statements.

Auditor

KPMG LLP were re-appointed as auditor during the year. KPMG LLP are willing to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors

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

Director	Role at 31 December 2017	Date of (re-) appointment	Board Committee		
Martyn Ratcliffe	Chairman	21/05/2015		N	
Rebecca Archer (née Hemsted)	Finance Director	18/05/2017			
David Courtley*	Non-Executive	19/05/2016	A	N	R
Michael Lacey-Solymar*	Non-Executive	19/05/2016	A	N	R

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

+ Independent Director

Directors' Biographies

Below are the biographies of the Directors:

Martyn Ratcliffe – Chairman*

Martyn Ratcliffe was appointed Chairman on 15 April 2010 following his investment in Sagentia Group, now Science Group. He was Chairman of Microgen plc from 1998 to 2016 and Chairman of RM plc from 2011 to 2013. He was previously Senior Vice President of Dell Computer Corporation, responsible for EMEA. He has a degree in Physics from the University of Bath and an MBA from City University, London.

Rebecca Archer (née Hemsted) – Finance Director

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

David Courtley – Non-Executive Director

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

Michael Lacey-Solymar – Senior Independent Director

Michael was appointed a Non-Executive Director on 11 October 2012. Michael has over 25 years corporate finance experience at UBS and Investec. He is currently chairman of Cambridge Medical Technologies Limited and a partner at Opus Corporate Finance LLP. He has a degree in Modern Languages from the University of Oxford.

Sarah Cole – Company Secretary

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

* Retire by rotation at the next AGM

Report of the Directors (continued)

Corporate Governance Report

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

Statement about applying the principles of the Code

Science Group is not required to comply with the UK Corporate Governance Code but reports on the Company's Corporate Governance arrangements, including those aspects of the UK Corporate Governance Code which the Board considers to be most relevant.

Board of Directors

Biographical details of the Directors are included on page 11.

At 31 December 2017, the Board comprised an Executive Chairman, Finance Director and two independent Non-Executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-Executive Directors hold meetings without the Chairman and Finance Director present if appropriate.

The Chairman is primarily responsible for the working of the Board of Science Group plc and the Group corporate strategy. The operational management of the business on a day-to-day basis is undertaken by the Corporate Executive Team which comprises the Finance Director, Group Managing Director, Chief Operating Officer, Chief Technical Officer and Group Legal Counsel.

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

The Board met 17 times during 2017 (2016: 14). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically meets ten times a year to consider a formal schedule of matters including the operating performance of the business and to review Science Group's financial plan and business model.

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

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

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

Relations with shareholders

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

Remuneration strategy

Science Group operates in a competitive market. If Science Group is to compete successfully, it is essential that it attracts, develops and retains high quality staff. Remuneration policy has an important part to play in achieving this objective. Science Group aims to offer its staff a remuneration package which is both competitive in the relevant employment market and which reflects individual performance and contribution. For 2017, in addition to base salary, benefits have included pension contributions, healthcare and life assurance benefits, a company bonus/profit share scheme and, where appropriate, share options.

Report of the Directors (continued)

Board Committees

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

Audit Committee

The Audit Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar and David Courtley. The Audit Committee met 3 times during 2017 (2016: 3). Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by David Courtley and currently comprises David Courtley and Michael Lacey-Solymar. The Remuneration Committee met 8 times during 2017 (2016: 7). It may take advice from time to time from external advisers, but did not do so in 2017. Further details on

the Remuneration Committee are provided in the Report of the Remuneration Committee.

Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and also currently comprises David Courtley and Michael Lacey-Solymar. The Nomination Committee met once during 2017 (2016: 1). It may take advice from time to time from external advisers, but did not do so in 2017. The Committee meets when necessary. The Committee's primary function is to make recommendations to the Board on all new appointments and re-appointments and also to advise generally on issues relating to Board composition and balance. The Board seeks input from all Directors regarding nominations for Board positions. All Board appointments have to be ratified at a General Meeting of the Company.

Meetings of the Board and sub-committees during 2017 were as follows:

	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in 2017	17	3	8	1
Martyn Ratcliffe	17	3*	8*	1
Rebecca Archer	17	3*	7*	1*
David Courtley	16	3	8	1
Michael Lacey-Solymar	16	3	8	1

* Attendance by invitation

Report of the Directors (continued)

Report of the Remuneration Committee

Remuneration Committee

The Remuneration Committee, which is chaired by David Courtley, currently comprises David Courtley and Michael Lacey-Solymer.

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

The Remuneration Committee recognises that incentivisation of staff is a key issue for Science Group, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to Science Group results. During the year, the Remuneration Committee approved grants of share options and confirmed a profit related bonus scheme for the Company for 2017.

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

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

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

Employee remuneration can include the following elements:

- basic salary – normally reviewed annually and set to reflect market conditions, personal performance and benchmarks in comparable companies;
- annual performance-related bonus/profit share – executives, managers and employees receive annual bonuses/profit shares related to company performance. The Chairman does

not participate in the Group performance-related bonus scheme;

- benefits – benefits include medical insurance, life assurance and pension contributions. The Chairman does not receive these benefits;
- share options – share option grants are reviewed regularly and granted on a discretionary basis by the Remuneration Committee.

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

Service contracts

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

Share option plans

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

The market price of the shares at 31 December 2017 was 205.5 pence (2016: 155.1 pence). The highest and lowest price during the year was 229.0 pence and 151.35 pence respectively.

Report of the Directors (continued)

Report of the Audit Committee

Audit Committee

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

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

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

Financial reporting and significant financial matters

In carrying out its duties, the Audit Committee is required to assess whether suitable accounting policies have been adopted and to challenge the robustness of significant management judgements reflected in the financial results. This is performed through discussions at Audit Committee meetings where the Finance Director explains any changes to accounting policies and describes any significant management judgements made. In addition, the Audit Committee reviews the year end report to the Audit Committee from the external auditors which details its work performed and findings from the annual audit.

During the year, the Audit Committee considered the following key financial matters in relation to the Group's financial statements and disclosures, with input from the external auditor:

Acquisition accounting of TSG – All acquisitions are approved by the Board to ensure the acquisition is in line with the Group strategy and the potential risks are explained, quantified where possible and understood. As part of the integration of the acquisition, the Finance Director performs a review of the accounting policies of the acquired companies and whether they are compliant with Group accounting policies. Any differences are recognised in the opening balance sheet to ensure consistency.

The Audit Committee has reviewed the disclosure of the acquisition in the financial statements in conjunction with the external Auditor's findings and where necessary, sought further confirmation or explanation from the Finance Director in order to conclude that the disclosures are appropriate and that acquisition accounting has been appropriately applied.

Carrying value of goodwill and acquisition related intangible assets

– The value of goodwill and acquisition related intangible assets is supported by a value in use model prepared by management. This is based on cash flows extracted from the Group's financial plan which has been approved by the Board. The Finance Director communicated the key assumptions within the value in use model and the Audit Committee concurred with management's conclusion that the carrying value of these assets was fully supported.

Revenue recognition – The Group's policy for revenue recognition is set out in Note 1 to the Financial Statements. The key judgements applied in respect of revenue recognition are primarily around the timing of revenue recognition in the event of project scope changes or where the actual time incurred on a project varies materially from the original estimate. These judgements have been discussed with the Audit Committee to ensure they are in line with the Group's accounting policy.

Recoverability of investments in subsidiaries of Science Group plc

– The value of investments in subsidiaries is supported by a value in use model prepared by management. This is based on cash flows extracted from the Group's financial plan which has been approved by the Board. The Finance Director communicated the key assumptions within the value in use model and the Audit Committee concurred with management's conclusion that the carrying value of these assets was fully supported.

Internal controls

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

Science Group has established procedures necessary to implement the guidance on internal control issued by the FRC Guidance on Audit Committees 2014. This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers.

Report of the Directors (continued)

Report of the Audit Committee (continued)

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

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

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

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

Main control procedures – Science Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties, as far as reasonably practicable.

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

This process, which operates in accordance with the FRC Guidance, was maintained throughout the financial year, and has remained in place up to the date of the approval of these financial statements. The Board, via the Audit Committee, has reviewed the systems and processes in place in meetings with the Finance Director and Science Group's auditors during 2017. No internal audit function is operated outside of the systems and processes in place, as the Board considers that Science Group is currently too small for a separate function, although this remains under regular review. The Board considers the internal control system to be appropriate for the Group.

During the year KPMG LLP were re-appointed as auditor. They have provided services in relation to the annual audit of the Group and also provided taxation advice in relation to the acquisition of TSG.

Report of the Directors (continued)

Report of the Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and also currently comprises David Courtley and Michael Lacey-Solymar.

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

Directors' Responsibilities

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. As required by 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 EU (IFRSs as adopted by the EU) and applicable law and 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.

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.

Approval

The Report of the Directors was approved by the Board on 27 February 2018 and signed on its behalf:

By order of the Board

Rebecca Archer
Finance Director

Harston Mill
Harston
Cambridge
CB22 7GG

Independent Auditor's Report to the Members of Science Group plc

1 Our opinion is unmodified

We have audited the financial statements of Science Group plc ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated Statement of Changes in Shareholders' Equity, Company Statement of Changes in Shareholders' Equity, Consolidated and Company Statements of Cash Flows 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 2017 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.

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 accounting Net assets acquired: £13,722k Refer to page 31 (accounting policy) and pages 61 to 63 (financial disclosure)	Subjective valuation During the year the group acquired TSG for a cash consideration of \$17.0m plus a contingent consideration of \$0.75m. The determination of separately identifiable intangible assets arising on business combinations is inherently judgemental and valuation of these assets is complex and sensitive to underlying assumptions around future cash flows and discount rates.	Our procedures included: Methodology choice: We used our own valuation specialists to assess the appropriateness of the valuation methodology applied by the Group. Our sector experience: We assessed the completeness of the intangibles identified by applying our professional experience to the information obtained from our inspection of purchase agreements and our inquiries with management, including obtaining understanding of the business acquired and the motivations for the acquisition. Benchmarking assumptions: We critically challenged the key assumptions, and in particular evaluated the reasonableness of the customer churn rates, growth rates and the discount rate with reference to externally derived data and our knowledge of the industry.

Independent Auditor's Report to the Members of Science Group plc (continued)

	The risk	Our response
<p>Impairment of goodwill and intangible assets (Goodwill: £11,535k (2016: £4,033k)) (Acquisition related intangibles: £9,499k (2016: £5,193k)) Refer to page 31 (accounting policy) and pages 48 to 51 (financial disclosure).</p>	<p>Forecast based valuation Due to the inherent uncertainty involved in forecasting and discounting future cash flows, the recoverability of goodwill and intangible assets is one of the key judgmental areas on which our audit focused.</p>	<p>Our procedures included: Historical comparisons: We reviewed historical forecasts against actual results to assess the reasonableness of the forecasts used. Benchmarking assumptions: We assessed the key assumptions such as projected long term growth rate and discount rates with reference to externally derived data. Assessing transparency: We assessed the adequacy of the Group's disclosures (see Note 13) in respect of impairment testing and considered whether the disclosures reflected the risks inherent in the valuation of goodwill and other acquisition related intangibles.</p>
<p>Revenue recognition (Revenue: £40,823k (2016: £36,899k)) Refer to page 33 (accounting policy) and pages 65 to 66 (critical accounting estimate disclosure).</p>	<p>Subjective estimate The Group undertakes a number of consulting projects which are billed on a time and materials basis. However, where a project is forecast to require more hours than initially projected to achieve customer aims, in some cases not all hours may be realised. In such scenarios the level of revenue to be recognised is dependent on the assessment of progress to date and the required hours to complete.</p>	<p>Our procedures included: Control operation: We tested the design and operating effectiveness of controls related to revenue recognition. Personnel interviews: For a sample of significant contracts, determined on the basis of technical and commercial complexity, financial significance and profitability, we assessed the status of the contract through discussions with project level staff. Tests of detail: On a sample basis we examined the underlying contracts, timesheet data and externally available evidence, such as customer correspondence, where relevant. Historical comparisons: On a sample basis we assessed the recognition of revenue by using past experience of the contracts, taking into account the extent of technical or commercial risk identified. Assessing transparency: We also assessed the adequacy of the Group's disclosures (see Note 26) about the degree of estimation involved in recognising revenue.</p>
<p>Recoverability of parent company's investment in subsidiaries (Cost of investment: £33,705k (2016: £19,983k)) Refer to page 31 (accounting policy) and pages 53 to 54 (financial disclosures).</p>	<p>Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 87% (2016: 100%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. 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.</p>	<p>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. Subsidiary audits: We considered the results of our audit work over those subsidiaries' profits and net assets. Our sector experience: For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a discounted cash flow model.</p>

Independent Auditor's Report to the Members of Science Group plc (continued)

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

Materiality: group financial statements as a whole £191k (2016: £191k)
5% of group profit before tax (2016: 5% of normalised group profit before tax)

Materiality for the group financial statements as a whole was set at £191k (2016: £191k) and determined with reference to a benchmark of group profit before tax, of which it represents 5% (2016: 5% of group profit before tax, adjusted for the impairment of goodwill in relation to OTM Consulting).

Materiality for the parent company financial statements as a whole was set at £152k (2016: £152k), determined with reference to a benchmark of net assets, and has been capped at 80% of group materiality.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £9k (2016: £10k), in addition to other identified misstatements that we believe warranted reporting on qualitative grounds.

Of the group's 18 components (2016: 10 components), we subjected 9 (2016: 6) to audits for group reporting purposes. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement with these.

Of the 9 components (2016: 6 components) within the scope of our group reporting work, all 9 (2016: 6), including the parent company, were covered by the Group audit team.

The component materialities ranged from £1k to £152k (2016: £1k to £152k), having regard to the mix of size and risk profile of the Group across the components.

The components within the scope of our work accounted for the following percentages of the group's results:

	Number of components	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	9	92%	89%	98%
Total	9	92%	89%	98%
Total (2016)	6	97%	94%	98%

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the 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.

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.

Independent Auditor's Report to the Members of Science Group plc (continued)

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 17, 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.

Charles le Strange Meakin (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR

27 February 2018

Financial Statements

and Notes to the
Financial Statements

Consolidated Income Statement

For the year ended 31 December 2017

		Group	
	Note	2017 £000	2016 £000
Revenue	4	40,823	36,899
Operating expenses before adjusting items	5	(33,317)	(30,683)
Adjusted operating profit	4	6,906	6,216
Amortisation and impairment of intangible assets	13	(1,410)	(1,857)
Impairment of other investments		-	(50)
Acquisition integration costs	22	(812)	(317)
Share based payment charge	7	(312)	(597)
Operating profit		4,372	3,395
Finance income	6	3	2
Finance costs	6	(496)	(429)
Profit before income tax		3,879	2,968
Income tax charge (including R&D tax credit of £308,000 (2016: £675,000))	9	(861)	(219)
Profit for the year		3,018	2,749
Profit for the year attributable to equity holders of the parent		3,018	2,749
Earnings per share			
Earnings per share from continuing operations (basic)	11	7.7p	6.8p
Earnings per share from continuing operations (diluted)	11	7.5p	6.6p
Adjusted earnings per share from continuing operations (basic)	11	12.8p	11.4p
Adjusted earnings per share from continuing operations (diluted)	11	12.5p	11.1p

All amounts relate to continuing operations.

The accompanying Notes form an integral part of this Consolidated Income Statement.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Group	
	2017	2016
	£000	£000
Profit for the year	3,018	2,749
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(28)	30
Fair value gain on interest rate swap	30	197
Deferred tax on interest rate swap	(5)	-
Deferred tax on interest rate swap - prior period adjustment	(38)	-
Other comprehensive (expense)/income for the year	(41)	227
Total comprehensive income for the year	2,977	2,976
Total comprehensive income for the year attributable to owners of the parent	2,977	2,976

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2017

Group	Issued capital	Share premium	Treasury stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total - Shareholders funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2016	421	8,230	(1,215)	10,343	308	2,359	16,785	37,231
Purchase of own shares	-	-	(2,757)	-	-	-	-	(2,757)
Issue of shares out of treasury stock	-	-	364	-	-	-	(83)	281
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	(361)
Dividends paid	-	-	-	-	-	-	(1,646)	(1,646)
Share based payment charge (Note 20)	-	-	-	-	-	353	-	353
Deferred tax on share based payment transactions	-	-	-	-	-	-	(74)	(74)
Transactions with owners	-	-	(2,393)	-	-	(8)	(1,803)	(4,204)
Profit for the year	-	-	-	-	-	-	2,749	2,749
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	197	197
Exchange differences on translating foreign operations	-	-	-	-	30	-	-	30
Total comprehensive income for the year	-	-	-	-	30	-	2,946	2,976
Balance at 31 December 2016	421	8,230	(3,608)	10,343	338	2,351	17,928	36,003
Balance at 1 January 2017	421	8,230	(3,608)	10,343	338	2,351	17,928	36,003
Purchase of own shares	-	-	-	-	-	-	-	-
Issue of shares out of treasury stock	-	-	39	-	-	-	(24)	15
Dividends paid	-	-	-	-	-	-	(1,653)	(1,653)
Share based payment charge (Note 20)	-	-	-	-	-	312	-	312
Deferred tax on share based payment transactions	-	-	-	-	-	-	85	85
Transactions with owners	-	-	39	-	-	312	(1,592)	(1,241)
Profit for the year	-	-	-	-	-	-	3,018	3,018
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	30	30
Exchange differences on translating foreign operations	-	-	-	-	(28)	-	-	(28)
Deferred tax on interest rate swap including prior period adjustment	-	-	-	-	-	-	(43)	(43)
Total comprehensive income for the year	-	-	-	-	(28)	-	3,005	2,977
Balance at 31 December 2017	421	8,230	(3,569)	10,343	310	2,663	19,341	37,739

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2017

Company	Issued capital	Share premium	Treasury stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total – Shareholders funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2016	421	8,230	(1,215)	10,343	-	385	21,940	40,104
Purchase of own shares	-	-	(2,757)	-	-	-	-	(2,757)
Issue of shares out of treasury stock	-	-	364	-	-	-	(83)	281
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	(361)
Dividends paid	-	-	-	-	-	-	(1,646)	(1,646)
Share based payment charge	-	-	-	-	-	43	-	43
Deferred tax on share based payment transactions	-	-	-	-	-	-	11	11
Transactions with owners	-	-	(2,393)	-	-	(318)	(1,718)	(4,429)
Profit and total comprehensive income for the year	-	-	-	-	-	-	1,700	1,700
Balance at 31 December 2016	421	8,230	(3,608)	10,343	-	67	21,922	37,375
Balance at 1 January 2017	421	8,230	(3,608)	10,343	-	67	21,922	37,375
Purchase of own shares	-	-	-	-	-	-	-	-
Issue of shares out of treasury stock	-	-	39	-	-	-	(24)	15
Equity interest of cancelled share options	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	(1,653)	(1,653)
Share based payment charge (Note 8)	-	-	-	-	-	30	-	30
Deferred tax on share based payment transactions	-	-	-	-	-	-	(21)	(21)
Transactions with owners	-	-	39	-	-	30	(1,698)	(1,629)
Profit and total comprehensive income for the year	-	-	-	-	-	-	2,150	2,150
Balance at 31 December 2017	421	8,230	(3,569)	10,343	-	97	22,374	37,896

Consolidated and Company Balance Sheet

At 31 December 2017

	Note	Company		Group	
		2017 £000	2016 £000	2017 £000	2016 £000
Assets					
Non-current assets					
Acquisition related intangible assets	13	-	-	9,499	5,183
Goodwill	13	-	-	11,535	4,033
Property, plant and equipment	14	-	-	23,787	23,793
Investments	15	33,705	19,983	50	50
Derivative financial assets	3	-	-	227	197
Deferred tax assets	10	62	44	104	287
		33,767	20,027	45,202	33,543
Current assets					
Trade and other receivables	16	1,842	12,178	10,627	8,219
Current tax asset		-	6	-	537
Cash and cash equivalents – Client registration funds	17	-	-	887	-
Cash and cash equivalents – Group cash	17	2,922	5,377	19,893	25,996
		4,764	17,561	31,407	34,752
Total assets		38,531	37,588	76,609	68,295
Liabilities					
Current liabilities					
Trade and other payables	18	116	213	19,454	15,213
Current tax liabilities		-	-	554	-
Provisions	19	-	-	825	-
Borrowings	21	-	-	1,250	1,000
		116	213	22,083	16,213
Non-current liabilities					
Provisions	19	-	-	466	-
Borrowings	21	-	-	12,676	13,664
Contingent consideration	22	519	-	519	-
Deferred tax liabilities	10	-	-	3,126	2,415
		519	-	16,787	16,079
Total liabilities		635	213	38,870	32,292
Net assets		37,896	37,375	37,739	36,003
Shareholders' equity					
Share capital	20	421	421	421	421
Share premium		8,230	8,230	8,230	8,230
Treasury stock		(3,569)	(3,608)	(3,569)	(3,608)
Merger reserve		10,343	10,343	10,343	10,343
Translation reserve		-	-	310	338
Share based payment reserve		97	67	2,663	2,351
Retained earnings		22,374	21,922	19,341	17,928
Total equity		37,896	37,375	37,739	36,003

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

Rebecca Archer Finance Director
Martyn Ratcliffe Chairman

On 27 February 2018

The accompanying notes form an integral part of this consolidated and company balance sheet.
The company's registered number is **06536543**.

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2017

	Note	Company		Group	
		2017 £000	2016 £000	2017 £000	2016 £000
Operating profit		2,089	1,231	4,372	3,395
Adjustments for:					
Amortisation on acquisition related intangible assets		-	-	1,410	817
Depreciation on property, plant and equipment		-	-	728	745
Loss on disposal of property, plant and equipment		-	-	-	57
Share based payment charge		30	287	312	597
Impairment of goodwill		-	-	-	1,040
Impairment of cost of investment		-	1,798	-	50
Decrease in receivables		10,340	4,579	1,406	675
Increase in payables representing client registration funds		-	-	887	-
(Decrease)/increase in payables excluding balances representing client registration funds		(118)	31	(469)	4,211
Cash generated from operations		12,341	7,926	8,646	11,587
Finance costs		-	(2)	(386)	(354)
UK corporation tax (paid)/received		-	-	(91)	560
Foreign corporation tax received/(paid)		-	-	19	(123)
Cash flows from operating activities		12,341	7,924	8,188	11,670
Interest received		34	456	3	2
Purchase of property, plant and equipment		-	-	(471)	(2,432)
Purchase of subsidiary undertakings, net of cash received		(13,192)	-	(10,435)	-
Cash flows (used in)/generated by investing activities		(13,158)	456	(10,903)	(2,430)
Issue of shares out of treasury		15	281	15	281
Payment in lieu of cancelled share options		-	(605)	-	(605)
Repurchase of own shares		-	(2,757)	-	(2,757)
Dividends paid		(1,653)	(1,646)	(1,653)	(1,646)
Proceeds from bank loans		-	-	-	15,000
Repayment of bank loans		-	-	(750)	(8,000)
Repayment of interest rate swap		-	-	-	(216)
Cash flows (used in)/generated by financing activities		(1,638)	(4,727)	(2,388)	2,057
Increase/(decrease) in cash and cash equivalents in the year		(2,455)	3,653	(5,103)	11,297
Cash and cash equivalents at the beginning of the year		5,377	1,724	25,996	14,516
Exchange gains/(loss) on cash		-	-	(113)	183
Cash and cash equivalents at the end of the year	17	2,922	5,377	20,780	25,996

Cash and cash equivalents is analysed as follows:

	Group	
	2017 £000	2016 £000
Cash and cash equivalents – Client registration funds (Note 17)	887	-
Cash and cash equivalents – Group cash	19,893	25,996
	20,780	25,996

Notes to the Financial Statements

For the year ended 31 December 2017

1 General information

Science Group plc (the 'Company') and its subsidiaries (together 'Science Group' or 'Group') is an international consultancy providing applied science, product development, technology advisory and regulatory services to a client base in medical, food & beverage and commercial markets. The Company is the ultimate parent company in which the results of all Science Group companies are consolidated.

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

The Company is incorporated and domiciled in England and Wales under the Companies Act 2006 and has its primary listing on the AIM Market of the London Stock Exchange (SAG.L). The value of Science Group plc shares, as quoted on the London Stock Exchange at 31 December 2017, was 205.5 pence per share (31 December 2016: 155.1 pence per share).

These Consolidated Financial Statements have been approved for issue by the Board of Directors on 27 February 2018.

Alternative performance measures

The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share', 'net funds' and 'net-funds-plus-freehold-property-per-share in issue' which are not defined within the International Financial Reporting Standards (IFRS). These are explained as follows:

(a) Adjusted operating profit

The Group calculates this measure by making adjustments to exclude certain items from operating profit namely: impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs, share based payment charges and other specified items that meet the criteria to be adjusted.

The criteria for the adjusted items in the calculation of adjusted operating profit is operating income or expenses that are material and either arise from an irregular and significant event or the income/cost is recognised in a pattern that is unrelated to the resulting operational performance. Materiality is defined as an amount which, to a user, would influence the decision making and understandability of the annual report. Acquisition integration costs include all costs incurred directly related to the restructuring, relocation and integration of acquired businesses. Adjustments for share based payment charges occurs because: once the cost has been calculated; the Directors cannot influence the share based payment charge incurred in subsequent years; it is understood that many market analysts exclude the cost from their valuation analysis of the business; and the value of the share option to the employee differs considerably in value and timing from the actual cash cost to the Group.

The calculation of this measure is shown on the Consolidated Income Statement.

(b) Adjusted earnings per share ('EPS')

The Group calculates this measure by dividing adjusted profit after tax by the weighted average number of shares in issue and the calculation of this measure is disclosed in Note 11. The tax rate applied to calculate the tax charge in this measure is the tax at the blended corporation tax rate across the various jurisdictions rate for the year which is 21.5% (2016: 20.0%) which results in a comparable tax charge year on year.

(c) Net funds

The Group calculates this measure as the net of cash and cash equivalents – Group cash and borrowings. Client registration funds are excluded from this calculation because these monies are pass through funds held on behalf of the client solely for the purpose of payment of registration fees to regulatory bodies and for which no revenue is recognised. This cash is not available for use in day to day operations. This measure is calculated as follows:

		Group	
	Note	2017 £000	2016 £000
Cash and cash equivalents – Group cash	17	19,893	25,996
Borrowings	21	(13,926)	(14,664)
Net funds		5,967	11,332

(d) Net-funds-plus-freehold-property-per-share in issue

The Group calculates this measure by dividing the sum of: net funds plus freehold land and buildings by the number of shares in issue at the balance sheet date. This is calculated as follows:

		Group	
In £000 unless otherwise stated	Note	2017	2016
Net funds		5,967	11,332
Freehold land and buildings	14	21,719	21,882
Net funds plus freehold property		27,686	33,214
Number of shares in issue (excluding treasury shares) ('000 shares)	21	39,367	39,329
Net-funds-plus-freehold-property-per-share in issue (pence)		70.3	84.5

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

1. General Information (continued)

Alternative performance measures (continued)

The Directors believe that disclosing these alternative performance measures enhances shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Specifically, the adjusted operating profit measure is used internally in order to assess the underlying operational performance of the Group, aid financial, operational and commercial decisions and in determining employee compensation. The adjusted EPS measure allows the shareholder to understand the underlying value generated by the Group on a per share basis. Net funds represents the Group's cash available for day to day operations and investments. The measure of net-funds-plus-freehold-property-per-share in issue is intended to assist shareholders in understanding the component of the market value of the shares that is attributable to these assets held by the Group. As such, the Board considers these measures enhance shareholders' understanding of the Group results and should be considered alongside the IFRS measures.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Science Group have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments at fair value. The financial statements are in accordance with IFRS as adopted by the EU.

Of the new standards and interpretations effective for the year ended 31 December 2017, there was no impact on the presentation of the financial statements of Science Group other than in disclosure. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated financial statements.

No income statement is presented for the Company as provided by Section 408 of the Companies Act 2006. The Company's profit for the financial period after tax, determined in accordance with the Act, was £2,150,000 (2016: £1,700,000).

The standards and interpretations in issue but not effective for accounting periods commencing on 1 January 2018 that may impact on Science Group going forward are listed below. Science Group has not adopted these early.

The Group intends to adopt these standards in the first accounting period after the effective date. With the exception of IFRS 16, the Directors do not anticipate that the adoption of the remaining Standards and Interpretations will have a material effect on the Consolidated Financial Statements in the period of initial application.

With regard to IFRS 15, which provides for a single principle-based model to be applied to all sales contracts based on the transfer of control of goods and services to customers, the Directors do not anticipate that the application of the standard will have a material effect on the amounts reported and the disclosures made in the consolidated financial statements.

The adoption of IFRS 16 will result in the recognition of assets on the balance sheet which are currently leased under operating lease. Until the Group performs a detailed impact assessment of this standard, it is not practicable to provide a reasonable estimate of the financial impact.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Science Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 26.

Number	Title	Effective
IFRS 15	Revenue from contracts with customers	1-Jan-18
IFRS 9	Financial Instruments	1-Jan-18
IFRS 2 Amendments	Classification and measurement of share based payment transactions	1-Jan-18
IAS 40	Investment Property	1-Jan-18
IAS28 Amendments	Investments in Associates and Joint Ventures	1-Jan-18
IFRIC 22	Foreign currency transactions and Advance consideration	1-Jan-18
IFRS 16	Leases	1-Jan-19
IFRIC 23	Uncertainty over Income Tax Treatments	1-Jan-19
IFRS 9 Amendments	Financial Instruments	1-Jan-19
IAS 28	Investments in Associates and Joint Ventures	1-Jan-19
IFRS 17	Insurance contracts	1-Jan-21

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

Going concern – The Directors have assessed forecast future cash flows and are satisfied that the Group has adequate cash and financing resources to continue in operational existence for the foreseeable future, being a period of at least a year following the approval of the accounts and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.2 Basis of consolidation

The basis of consolidation is set out below:

Subsidiaries – subsidiaries are entities controlled by Science Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

Other investments – investments made in entities over which Science Group is deemed to have no significant influence are stated at cost less any provision for impairment where appropriate. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2.3 Segment reporting

Under IFRS 8, the accounting policy for identifying segments is based on the internal management reporting information that

is regularly reviewed by the chief operating decision makers (CODMs).

There are two segments identified; Core Business and Non-Core Business. Core Business activities includes all service revenue, recharged materials and product and licence income generated directly from these activities. Non-Core activities include rental income from Harston Mill and associated services.

2.4 Intangible assets

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

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

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

Acquisition related intangible assets - net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition related intangible assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed. The estimated useful economic life for customer contracts and relationships is between 6 and 11 years. The assets are assessed on an annual basis for impairment and amortised over its remaining economic useful life.

Following identification of indicators of impairment for the OTM Consulting Cash-Generation Unit (CGUs) during 2016, the useful economic life of OTM Consulting customer relationships was reviewed and reduced to a remaining useful economic life of 3 years as at 31 December 2016.

During 2017, the Group consolidated the OTM and Oakland Innovation CGU's to form the Advisory CGU (Note 13).

2.5 Research and development expenditure

Research and development expenditure is written off as incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.6 Property, plant and equipment

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

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

Land is not depreciated. Depreciation on all other property, plant and equipment is calculated using the straightline method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	25 years
Furniture and fittings	3-5 years
Equipment	3 years

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

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

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and on demand deposits, together with short term, liquid investments that are readily convertible to a known amount of cash and that are subject to a minimal risk of changes in value. Cash that is held on behalf of the client that is solely for the purpose of payment of product registration fees to regulatory bodies are separately identified.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that Science Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.9 Trade and other payables

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

2.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

2.11 Borrowings

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

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

2.12 Derivative financial instruments

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

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

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

2.13 Share capital

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.14 Revenue recognition

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

Consulting revenues is recognised when the service has been provided.

Subscription income is recognised in the income statement on a straight line basis.

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

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

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

2.15 Foreign currency

(a) Functional and presentation currency – Items included in the financial statements of each of Science Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Pound Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) all resulting exchange differences are recognised as a separate component of equity; and

(iv) on disposal of a foreign subsidiary the accumulated translation differences recognised in equity are reclassified to profit and loss and recognised as part of the gain or loss on disposal.

2.16 Employee benefits

(a) Pension obligations – Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies based on a percentage of salary earned, currently ranging between 5% and 8%. These are defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administered pension insurance plans. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

Sagentia Inc. provides 401(k) benefits to employees. Science Group has no further payment obligations once the contributions have been paid.

(b) Share based compensation – Science Group operates an equity-settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as calculated by using an appropriate valuation method. The Black-Scholes model excludes the impact of any non-market vesting conditions (for example profitability and sales growth targets). The Monte Carlo and Binomial Option Pricing models build in any market performance conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.16 Employee benefits (continued)

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

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

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

(e) Sales commission – Science Group operates a sales commission scheme for relevant sales staff. A liability and expense is recognised based on sales made by employees who are eligible for the scheme, and is calculated using the commission scheme rules. Sales commission is paid quarterly and is only payable to the employee when the associated revenue is recognised.

2.17 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws of the relevant countries that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.18 Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are treated as operating leases and are charged on a straight-line basis over the lease term, even if payments are not made on such a basis. Income from property leases is recognised in the related period on a straightline basis over the lease term. The majority of property leases are subject to mutual notice periods of up to 6 months.

2.19 Dividends paid

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

2.20 Dividend income

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3 Financial risk management

3.1 Financial risk factors

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

(a) Foreign currency sensitivity

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

To manage the Group's foreign exchange risk arising from commercial transactions, recognised assets and liabilities, entities in Science Group may use forward contracts and other instruments. Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group finance function is responsible for managing the net position in each foreign currency primarily by selling monies held in currency into GBP on a regular basis. At present, forward exchange contracts are not used.

Science Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

2017 £000	US\$	Euro	Other	Total
Financial assets	7,027	2,302	222	9,551
Financial liabilities	(3,171)	(299)	(21)	(3,491)
Exposure	3,856	2,003	201	6,060
2016 £000	US\$	Euro	Other	Total
Financial assets	3,697	735	-	4,432
Financial liabilities	(81)	(29)	-	(110)
Exposure	3,616	706	-	4,322

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

The following table illustrates the sensitivity of the net movement on reserves and equity in regards to Science Group's financial assets and financial liabilities and the US Dollar/GBP exchange rate and Euro/GBP exchange rate. It assumes a +/- 10.0% change of the GBP/US Dollar exchange rate as at 31 December 2017 (2016: 10.0%). A +/- 10.0% change is considered for the GBP/Euro exchange rate (2016: 10.0%).

If the GBP had strengthened against the US Dollar and Euro by 10.0% (2016: 10.0%) respectively then this would have had the following impact:

2017 £000	US\$	Euro	Other	Total
Income statement	(202)	(147)	-	(349)
Equity	329	(220)	(21)	88
2016 £000	US\$	Euro	Other	Total
Income statement	(343)	(70)	-	(413)
Equity	(343)	(70)	-	(413)

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Foreign currency sensitivity (continued)

The actual currency rate movement against the US Dollar and Euro at year end compared to the previous year end was 8.7% (2016: -19.7%) and -4.1% (2016: -15.9%) respectively. Exposures to foreign exchange rates vary during the year depending on the volume and value of overseas transactions.

(b) Interest rate sensitivity

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

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

Group	2017 £000	2016 £000
Pound Sterling – bank loan	14,000	14,750
Weighted average interest rate		
		%
Pound Sterling – fixed rate bank loan	3.47%	3.47%
Pound Sterling – floating rate bank loan	Libor+2.6%	LIBOR+2.6%

For benchmark rates of interest, Science Group refers to LIBOR. The bank loan is secured via a fixed charge over certain assets of Science Group and is repayable as disclosed in Note 21. Terms and conditions of the interest rate swap are as disclosed in Note 21.

(c) Credit risk analysis

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

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

	Company		Group	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash and cash equivalents – Group cash	2,922	5,377	19,893	25,996
Cash and cash equivalents – Client registration funds	-	-	887	-
Trade and other receivables	1,819	12,061	9,705	7,570
	4,741	17,438	30,485	33,566

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

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

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

An analysis of the age of trade and other receivables that are overdue but not impaired and an analysis of trade and other receivables that are considered to be impaired are disclosed in Note 16.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk analysis

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

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

As at 31 December 2017, Science Group's financial liabilities have contractual maturities which are summarised below:

2017	Current		Non-current	
	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Bank borrowings	750	500	4,000	8,750
Contingent consideration	-	-	555	-
Interest on bank borrowings	235	230	1,511	912
Trade payables	1,518	-	-	-
Accruals	5,859	-	-	-
	8,362	730	6,066	9,662

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

2016	Current		Non-current	
	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Bank borrowings	500	500	4,000	9,750
Interest on bank borrowings	252	247	1,650	912
Trade payables	765	-	-	-
Accruals	3,661	-	-	-
	5,178	747	5,650	10,662

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(e) Summary of financial assets and liabilities by category

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

	Company		Group	
	2017 £000	2016 £000	2017 £000	2016 £000
Loans and receivables:				
- Trade receivables	-	-	7,591	7,200
- Other receivables	1,819	12,061	2,114	370
- Cash and cash equivalents – Client registration funds	-	-	887	-
- Cash and cash equivalents – Group cash	2,922	5,377	19,893	25,996
	4,741	17,438	30,485	33,566
Financial liabilities at amortised cost:				
- Non-current borrowings	-	-	12,676	13,664
- Current borrowings	-	-	1,250	1,000
- Trade payables	-	26	1,518	765
- Accruals	78	86	5,859	3,661
	78	112	21,303	19,090
Derivatives used for hedging:				
- Financial instruments asset	-	-	227	197
Financial liabilities measured at fair value through profit and loss:				
- Contingent consideration	519	-	519	-

The fair value of Science Group's financial assets and liabilities is the same as the carrying value.

3.2 Fair value estimation

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

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3 Financial risk management (continued)

3.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital and to provide funds for merger and acquisition activity.

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

	Group	
	2017 £000	2016 £000
Total shareholders' funds	37,739	36,003
Net funds (Note 1)	5,967	11,332
Freehold property at Harston Mill	13,294	13,374
Freehold property at Great Burgh	8,425	8,508

Shareholders' funds

In 2017 Sagentia Limited paid a dividend distribution of £3.0 million and Oakland Innovation Limited paid a dividend distribution of £0.5 million to Science Group plc. In 2016 Sagentia Limited paid a dividend distribution of £3.5 million and OTM Consulting Limited paid a dividend distribution of £0.4 million to Science Group plc.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Board will recommend the payment of a dividend of 4.4 pence per share at the forthcoming AGM (2016: 4.2 pence per share). The Board anticipates recommending a single dividend being paid each year.

Net funds

The net funds of the Group have decreased by £5.4 million in 2017 (2016: increased by £4.6 million) as set out in the Consolidated Statement of Cash Flows.

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

Freehold property

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4 Segment information

Science Group is organised on a worldwide basis into two segments, Core Business and Non-Core Business. 'Core Business' services revenue includes all consultancy fees for services operations. 'Core Business' other revenue includes recharged materials and expenses and product/licence revenue generated directly from all 'Core Business' activities. 'Non-Core Business' activities include rental income from Harston Mill and income from the provision of external IT services. The segmental analysis is reviewed to operating profit. Other resources are shared across the Group.

Year ended 31 December 2017	Core Business £000	Non-Core Business £000	Total £000
Services revenue	38,365	39	38,404
Third party property income	-	1,080	1,080
Other	1,339	-	1,339
Revenue	39,704	1,119	40,823
Adjusted operating profit	6,709	197	6,906
Amortisation and impairment of intangible assets	(1,410)	-	(1,410)
Acquisition integration costs	(812)	-	(812)
Share based payment charge	(312)	-	(312)
Operating profit	4,175	197	4,372
Finance charges (net)			(493)
Profit before income tax			3,879
Income tax charge			(861)
Profit for the year			3,018
Year ended 31 December 2016	Core Business £000	Non-Core Business £000	Total £000
Services revenue	34,228	36	34,264
Third party property income	-	1,079	1,079
Other	1,556	-	1,556
Revenue	35,784	1,115	36,899
Adjusted operating profit	6,121	95	6,216
Amortisation and impairment of intangible assets	(1,857)	-	(1,857)
Impairment of other investments	(50)	-	(50)
Acquisition integration costs	(317)	-	(317)
Share based payment charge	(597)	-	(597)
Operating profit	3,300	95	3,395
Finance charges (net)			(427)
Profit before income tax			2,968
Income tax charge			(219)
Profit for the year			2,749

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4 Segment information (continued)

Geographical segments

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

	2017		2016	
	Revenue £000	Non-current assets £000	Revenue £000	Non-current assets £000
United Kingdom	7,673	45,048	10,324	33,253
Other European countries	14,382	21	9,739	-
North America	17,105	29	15,710	3
Other	1,663	-	1,126	-
Total	40,823	45,098	36,899	33,256

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

During the year ended 31 December 2017, the Group acquired Technology Sciences Group and its subsidiaries (Note 22). Due to the nature of the business of TSG, being a science-based consultancy which is consistent in nature to the existing Core Business segment, the revenue was included within the core segment.

During 2017, £4.1 million or 10% of the Group's revenue depended on a single customer in the Core Business Segment, based in Europe (excluding the UK) (2016: no single customer accounted for 10% or more of the Group's revenue). Operating profit for the Core Business Segment included a depreciation charge of £0.7 million (2016: £0.8 million) and the Non-Core Business Segment included a depreciation charge of £32,000 (2016: £32,000). Capital expenditure attributable to the Core Business Segment is £0.6 million (2016: £2.6 million). Capital expenditure attributable to the Non-Core Business Segment is £nil (2016: £nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5 Operating expenses

Expenses by nature		Group	
Year ended 31 December	Note	2017	2016
		£000	£000
Employee remuneration and benefit expenses	7	22,101	20,517
Operating third party expenses		2,370	2,317
Occupancy costs		3,410	3,421
Equipment and consumables		1,513	1,198
Selling and marketing expenses		1,908	1,613
Depreciation of property, plant and equipment	14	728	745
Net loss on disposal of property, plant and equipment		-	59
Foreign currency gains		64	(310)
Amortisation and impairment of intangible assets		1,410	1,857
Impairment of other investments		-	50
Other		2,947	2,037
		36,451	33,504
Less expenses below adjusted operating profit		(2,534)	(2,821)
		33,917	30,683
<hr/>			
Included above		Group	
		2017	2016
		£000	£000
Research and development *		7,408	7,431
Operating lease rentals		626	522
Auditors' remuneration			
Services to the Company and its subsidiaries:			
Fees payable to the Company's auditors for the audit of the financial statements		10	10
Audit of the financial statements of the Group and Company subsidiaries pursuant to legislation		118	49
Fees payable to the Company's auditor for other non-audit services: Other audit-related advisory services		11	8

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

The auditor's remuneration relates solely to amounts paid to KPMG LLP.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6 Finance income and finance costs

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

Year ended 31 December	Group	
	2017 £000	2016 £000
Finance income		
Bank interest receivable and similar income	3	2
	3	2
Finance costs		
Bank borrowings	(490)	(354)
Unwind of discount	(6)	-
Change in fair value of interest rate swap	-	(75)
	(496)	(429)

7 Employee benefit expenses

Employment costs are shown below:

Year ended 31 December	Group	
	2017 £000	2016 £000
Wages and salaries (including bonuses and healthcare costs)	18,168	16,694
Social security costs	2,750	2,238
Sales commission	81	100
Pension costs	790	888
Share based payments (Note 20)	312	597
	22,101	20,517

The average monthly number of persons employed (including Executive and Non-Executive Directors and fixed term contractors) by Science Group was as follows:

Year ended 31 December	Group	
	2017 Number	2016 Number
Technology consultants	243	257
Marketing, support, administration and other staff	77	63
	320	321

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8 Directors' remuneration, interests and transactions

Directors' emoluments and benefits include:

Year ended 31 December 2017	Salary/ fee	Bonus	Pension contribution	Taxable Benefits	Total
Name of Director	£000	£000	£000	£000	£000
Courtley	38	-	-	-	38
Archer	160	68	11	-	239
Lacey-Solymar	38	-	-	-	38
Ratcliffe	385	-	-	-	385
Aggregate emoluments	621	68	11	-	700

Year ended 31 December 2016	Salary/ fee	Bonus	Pension contribution	Taxable Benefits	Total
Name of Director	£000	£000	£000	£000	£000
Courtley	35	-	-	-	35
Archer	135	44	9	1	189
Lacey-Solymar	35	-	-	-	35
Ratcliffe	385	-	-	-	385
Aggregate emoluments	590	44	9	1	644

Directors' emoluments and benefits are stated for the Directors of Science Group plc only. In addition to the above, a share based payment charge of £30,000 was recognised in the income statement relating to share options held by Directors (2016: £43,000).

The amounts shown were recognised as an expense during the year and relate to the Directors of the Company. Bonuses, pension and medical benefits are not paid to Non-Executive Directors. Mr Ratcliffe does not participate in the Group bonus scheme or receive pension or medical benefits.

Total social security costs related to Directors during the year was £98,409 (2016: £83,000).

Directors' interests in the shares of Science Group at 31 December 2017 and 31 December 2016, and any changes subsequent to 31 December 2017, are as follows:

Science Group plc						
Ordinary shares of £0.01		Options			Shares	
Year ended 31 December	2017	2016	2017	2016	2017	2016
	Average exercise price (pence)		Number	Number	Number	Number
Archer	1.0	1.0	200,000	200,000	-	-
Ratcliffe	-	-	-	-	13,412,906	13,412,906
Courtley	-	-	-	-	375,000	375,000
	-	-	200,000	200,000	13,787,906	13,787,906

See Note 20 for further details on option plans.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

9 Income tax

The tax charge comprises:

Year ended 31 December	Note	2017 £000	2016 £000
Current taxation		(1,281)	(131)
Current taxation – adjustment in respect of prior years		(34)	(42)
Deferred taxation	10	196	(657)
Deferred taxation – adjustment in respect of prior years		(50)	(64)
R&D tax credit		308	675
		(861)	(219)

The corporation tax on Science Group's profit before tax differs from the theoretical amount that would arise using the blended corporation tax rate across the various jurisdictions applicable to profits of the consolidated companies of 21.5% (2016: 20.0%) as follows:

	2017 £000	2016 £000
Profit before tax	3,879	2,968
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	(836)	(594)
Expenses not deductible for tax purposes	(45)	(455)
Adjustment in respect of prior years – current tax	(34)	(42)
Adjustment in respect of prior years – deferred tax	(50)	(64)
Movement in deferred tax due to change in tax rate	-	117
Share scheme movements	8	38
Current year losses for which no deferred tax asset was recognised	(126)	-
Mandatory earnings and profits one-time tax	(120)	-
Prior year losses used in the current year which were not previously recognised	34	106
R&D tax credit	308	675
Tax charge	(861)	(219)

During the financial year, the United States Federal Government released the Tax Cuts and Jobs Act. The impact of this bill has resulted in the recognition of a corporation tax liability based on the undistributed profits of all foreign subsidiaries of Technology Sciences Group Inc. This is a mandatory one-time tax for and hence is not anticipated to recur in a future period.

The Group claims Research and Development tax credits under both the R&D expenditure credit scheme and the Small or Medium-sized Scheme. In the current year, the Group recognised a tax credit of £0.3 million on an accrual basis (2016: the R&D tax credit of £0.7 million in 2016 relates to the claims for the 2015 and 2016 financial years recognised on an accruals basis). The Group performed a reasonable estimate of all amounts involved to determine the impact of the R&D tax credits in the current period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

10 Deferred tax

The movement in deferred tax assets and liabilities during the year by each type of temporary difference is as follows:

	Accelerated capital allowances	Tax losses	Share based payment	Acquisition related intangible assets	Other temporary differences	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2016	(1,972)	1,324	397	(1,125)	43	(1,333)
Charge to the income statement	188	(973)	(28)	189	(33)	(657)
Charged to the income statement (prior year adjustment)	-	(64)	-	-	-	(64)
Charged to equity	-	-	(74)	-	-	(74)
At 31 December 2016	(1,784)	287	295	(936)	10	(2,128)
Charged to the income statement	50	(183)	97	243	(11)	196
Deferred taxation relating to acquisitions	-	-	-	(1,308)	226	(1,082)
Charge to the income statement (prior year adjustment)	-	-	-	-	(50)	(50)
Charged to equity	-	-	85	-	(43)	42
At 31 December 2017	(1,734)	104	477	(2,001)	132	(3,022)

	Group	
	2017 £000	2016 £000
Deferred tax assets	104	287
Deferred tax liabilities	(3,126)	(2,415)
Net deferred tax liability	(3,022)	(2,128)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred tax liabilities are recognised against accelerated capital allowances. The Group has available tax losses of approximately £11.4 million (2016: £11.8 million) and of these losses, £10.8 million are not recognised as a deferred tax asset and they do not expire.

Company	Share based payment £000	Total £000
At 1 January 2016	23	23
Charged to the income statement	10	10
Charged to equity	11	11
At 31 December 2016	44	44
Charged to the income statement	18	18
Charged to equity	-	-
At 31 December 2017	62	62

The Company has available tax losses of approximately £2.3 million (2016: £2.3 million) and these losses do not expire.

Factors affecting future tax charges

A reduction in the UK corporation tax rate 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The US federal rate had a reduction from 35% to 21%, effective from 1 January 2018. Deferred tax assets (liabilities) were calculated at tax the substantively enacted corporation tax rates in the respective jurisdictions.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11 Earnings per share

The calculation of earnings per share is based on the following result and weighted average number of shares:

	2017			2016		
	Profit after tax £000	Weighted average number of shares	Pence per share	Profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	3,018	39,316,141	7.7	2,749	40,542,379	6.8
Effect of dilutive potential ordinary shares: share options	-	957,584	(0.2)	-	1,094,273	(0.2)
Diluted earnings per ordinary share	3,018	40,273,725	7.5	2,749	41,636,652	6.6

Only the share options granted, as disclosed in Note 20, are dilutive.

The calculation of adjusted earnings per share is as follows:

	2017			2016		
	Adjusted* profit after tax £000	Weighted average number of shares	Pence per share	Adjusted* profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	5,032	39,316,141	12.8	4,631	40,542,379	11.4
Effect of dilutive potential ordinary shares: share options	-	957,585	(0.3)	-	1,094,273	(0.3)
Diluted earnings per ordinary share	5,032	40,273,725	12.5	4,631	41,636,652	11.1

*Calculation of adjusted profit after tax:

Group	2017 £000	2016 £000
Adjusted operating profit	6,906	6,216
Finance income	3	2
Finance costs	(496)	(429)
Adjusted profit before tax	6,413	5,789
Tax charge at the blended corporation tax rate across the various jurisdictions 21.5% (2016: 20.0%)	(1,381)	(1,158)
Adjusted profit after tax	5,032	4,631

The tax charge is calculated using the blended corporation tax rate across the various jurisdictions in which the Group companies are incorporated.

12 Dividends

The proposed final dividend for 2016 of 4.2 pence per share was approved by Shareholders and the Board on 18 May 2017. An amount of £1.65 million was recognised as a distribution to equity holders in the year ended 31 December 2017.

The Board has proposed a final dividend for 2017 of 4.4 pence per share. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £1.73 million has not been included as a liability as at 31 December 2017.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13 Intangible assets

Group	Customer contracts and relationships £000	Goodwill £000	Total £000
Cost			
At 1 January 2016	6,894	6,258	13,152
Acquisitions through business combinations	-	-	-
At 31 December 2016	6,894	6,258	13,152
Acquisitions through business combinations	5,726	7,502	13,228
At 31 December 2017	12,620	13,760	26,380
Accumulated amortisation			
At 1 January 2016	(887)	-	(887)
Amortisation charged in year	(817)	-	(817)
At 31 December 2016	(1,704)	-	(1,704)
Amortisation charged in year	(1,410)	-	(1,410)
At 31 December 2017	(3,114)	-	(3,114)
Accumulated impairment			
At 1 January 2016	(7)	(1,185)	(1,192)
Impairment losses for the year	-	(1,040)	(1,040)
At 31 December 2016 and 31 December 2017	(7)	(2,225)	(2,232)
Carrying amount			
At 31 December 2016	5,183	4,033	9,216
At 31 December 2017	9,499	11,535	21,034

Reconciliation of amortisation and impairment to the Consolidated Income Statement:

	2017 £000	2016 £000
Amortisation of intangible assets	(1,410)	(817)
Impairment of goodwill relating to OTM	-	(1,040)
Amortisation and impairment of intangible assets	(1,410)	(1,857)

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13 Intangible Assets (continued)

Goodwill and acquisition related intangible assets recognised arose from acquisitions during 2013, 2015 and 2017. The discount rates used for goodwill impairment reviews and the carrying amount of goodwill is allocated as follows:

Group	2017		2016	
	Pre tax discount rate	£000	Pre tax discount rate	£000
OTM Consulting	-	-	11.2%	1,352
Oakland Innovation	-	-	11.0%	2,031
Advisory	11.2%	3,383	-	-
Leatherhead Research	11.2%	650	11.0%	650
TSG - Americas (Note 22)	11.0%	3,166	-	-
TSG - Europe (Note 22)	11.0%	4,336	-	-
		11,535		4,033

Cash Generating Units

During 2017, the OTM Consulting and Oakland Innovation CGUs were combined into an Advisory CGU following the merging of the Group's technology advisory businesses including OTM Consulting. The goodwill has been aligned to reflect these changes.

Impairment review of goodwill

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

The Group prepares the cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates cash flows for the following three years based on forecast rates of growth or decline in revenue by the CGU. The operating profit margin for the CGU that is incorporated in the cash flow forecasts is derived from the most recent financial plan approved by the Board.

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

Impairment testing for the Advisory CGU

A review of the forecast future cash flows of Advisory, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

Advisory CGU	2017	2016
Rate of growth in revenue (average of next 4 years)	5.0%	-
Rate of increase in operating costs (average of next 4 years)	5.0%	-
Terminal value growth rate	2.25%	-

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to Advisory being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13 Intangible Assets (continued)

Impairment testing for the Leatherhead Research CGU

A review of the forecast future cash flows of Leatherhead Research CGU, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

Leatherhead Research CGU	2017	2016
Rate of growth in revenue (average of next 5 years)	3.2%	3.0%
Rate of (increase)/decrease in operating costs (average of next 5 years)	3.1%	(0.2%)
Terminal value growth rate	2.25%	2.25%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to Leatherhead Research CGU being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Impairment testing for the TSG Americas CGU

A review of the forecast future cash flows of TSG Americas, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

TSG Americas CGU	2017	2016
Rate of growth in revenue (average of next 5 years)	4.6%	-
Rate of increase in operating costs (average of next 5 years)	4.2%	-
Terminal value growth rate	2.25%	-

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to TSG Americas being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Impairment testing for the TSG Europe CGU

A review of the forecast future cash flows of TSG Europe, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

TSG Europe CGU	2017	2016
Rate of growth in revenue (average of next 5 years)	4.6%	-
Rate of increase in operating costs (average of next 5 years)	4.5%	-
Terminal value growth rate	2.25%	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13 Intangible Assets (continued)

Impairment testing for the TSG Europe CGU (continued)

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to TSG Europe being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

14 Property plant and equipment

Group	Freehold land and buildings £000	Furniture and fittings £000	Equipment £000	Total £000
Cost				
At 1 January 2016	24,047	1,823	1,347	27,217
Exchange differences on cost	-	-	8	8
Additions	1,216	1,036	303	2,555
Disposals	(67)	(169)	(457)	(693)
At 1 January 2017	25,196	2,690	1,201	29,087
Exchange differences on cost	-	(1)	-	(1)
Additions	-	429	165	594
Additions through business combinations	4	44	81	129
At 31 December 2017	25,200	3,162	1,447	29,809
Accumulated depreciation				
At 1 January 2016	3,153	1,118	906	5,177
Depreciation charge	169	309	267	745
Exchange differences on depreciation	-	-	8	8
Disposals	(8)	(169)	(459)	(636)
At 1 January 2017	3,314	1,258	722	5,294
Depreciation charge	167	327	234	728
Exchange differences on depreciation	-	-	-	-
Disposals	-	-	-	-
At 31 December 2017	3,481	1,585	956	6,022
Carrying amount				
At 31 December 2016	21,882	1,432	479	23,793
At 31 December 2017	21,719	1,577	491	23,787

The Epsom property is held at cost less accumulated depreciation. Included within land and buildings for Science Group is freehold land to the value of £500,000 (2016: £500,000) which has not been depreciated. During the year ended 31 December 2016, the property was brought into use from which point depreciation commenced. This property was acquired solely for the use of Science Group. This property was last formally valued at £8.0 million during May 2016 by Vail Williams LLP for Lloyds, subject to the assumption of full vacant possession.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

14 Property plant and equipment (continued)

The Harston property is held at cost less accumulated depreciation. Included within land and buildings for Science Group is freehold land to the value of £1,360,000 (2016: £1,360,000) which has not been depreciated. Cumulative interest capitalised up to 31 December 2003 was £340,000. No further interest has been capitalised since. The Harston property was last formally valued during August 2013 by Savills for Lloyds. Under the assumptions used, including tenant covenant strength and market rents, the indicative valuation range for the building was between £12.9 million based on occupational tenancies where the head lease is merged into the freehold interest, and £18.0 million under a sale and leaseback scenario.

The Harston property generated third party rental and services income of £1,080,000 (2016: £1,079,000). Of this income, £677,000 (2016: £636,000) was rental income and £403,000 (2016: £443,000) was services income. Services income includes, but is not limited to, utilities, cleaning and general maintenance.

The total space on the Harston site available for business use is 97,000 sq ft. Of this space, the average total space let to third parties during 2017 was 31,300 sq ft (2016: 31,300 sq ft). The leases to tenants are typically for a 36 month term and normally have a termination notice period of 3 to 6 months. An average of 45,700 sq ft (2016: 44,200 sq ft) was used by the Group during the year for its business activities including office space and laboratory space and 20,000 sq ft are common areas. The remaining space of nil sq ft (2016: 1,500 sq ft) was vacant during the year.

Given the continuing rental values and occupancy rates the Directors do not believe that the combined carrying value of the Harston and Epsom properties of £21,719,000 (2016: £21,882,000) is significantly different to its fair value.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15 Investments

a) Investments in subsidiaries

Science Group held investments in the following subsidiaries at 31 December 2017.

Subsidiaries of Science Group plc	Registered office	Country of incorporation	Principal activity	Shares held	%
Consulting operations					
Sagentia Limited*	(1)	England	Consultancy	Ordinary	100
Sagentia Technology Advisory Limited*	(1)	England	Holding company	Ordinary	100
OTM Consulting Limited*	(1)	England	Consultancy	Ordinary	100
Quadro Epsom Limited*	(1)	England	Property	Ordinary	100
Manage5Nines Limited	(1)	England	IT Consultancy	Ordinary	100
Sagentia Inc.	(2)	USA	Consultancy	Ordinary	100
OTM Consulting Inc.	(3)	USA	Consultancy	Ordinary	100
Oakland Innovation Limited*	(1)	England	Consultancy	Ordinary	100
Leatherhead Research Limited*	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group Limited**	(1)	England	Consultancy	Ordinary	61
Technology Sciences Group Consulting Limited	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group Canada (TSG) Inc	(1)	Canada	Consultancy	Ordinary	100
TSGE Forum Limited	(1)	England	Consultancy	Ordinary	100
TSGE Iberia SL	(1)	Spain	Consultancy	Ordinary	100
TSGE d.o.o	(1)	Slovenia	Consultancy	Ordinary	100
TSGE Deutschland GmbH	(1)	Germany	Consultancy	Ordinary	100
Technology Sciences Group Inc.*	(1)	USA	Consultancy	Ordinary	100

* Direct subsidiaries of Science Group plc as at 31 December 2017

** Science Group plc owns 61% of Technology Sciences Group Limited, with Technology Sciences Group Inc holding the remaining 39%. Science Group plc owns 100% of Technology Sciences Group Inc hence the Group owns 100% of Technology Sciences Group Limited.

(1) Harston Mill, Royston Road, Harston, Cambridge, England, CB22 7GG

(2) Beacon Street, Suite 2300, Boston, USA, MA 02108

(3) Greenway Plaza, Suite 1100, Houston, USA, TX 77046

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15 Investments (continued)

b) Other investments

Group	Total £000
Cost	
At 1 January 2016, 31 December 2016 and 31 December 2017	100
Impairment	
At 1 January 2016	-
Impairment loss	50
At 31 December 2016 and 31 December 2017	50
Carrying amount	
At 31 December 2016	50
At 31 December 2017	50

At 31 December 2017, a subsidiary of Science Group plc holds 30% of the ordinary share capital of Creative (ID) Design Limited, a Cambridge-based industrial design consultancy, at a net book value of £50,000.

The Directors do not consider that any of its investments are associates and to avoid a statement of excessive length, details of investments that are not significant have been omitted.

c) Company investments

Group	Total £000
Cost	
At 1 January 2016 and 31 December 2016	22,168
Acquisitions through business combinations	13,722
At 31 December 2017	35,890
Impairment	
At 1 January 2016	387
Impairment loss	1,798
At 31 December 2016 and 31 December 2017	2,185
Carrying amount	
At 31 December 2016	19,983
At 31 December 2017	33,705

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16 Trade and other receivables

	Company		Group	
	2017 £000	2016 £000	2017 £000	2016 £000
Current assets:				
Trade receivables	-	-	7,953	7,297
Provision for impairment	-	-	(362)	(97)
Trade receivables - net	-	-	7,591	7,200
Amounts recoverable on contracts	-	-	2,107	356
Other receivables	-	-	7	14
Amounts owed by Group undertakings	1,819	12,061	-	-
VAT	9	8	33	-
Prepayments	14	109	889	649
	1,842	12,178	10,627	8,219

All amounts disclosed above are receivable within 90 days.

All of Science Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were considered to be impaired and a provision of £371,000 (2016: £97,000) has been provided at 31 December 2017. In addition, some of the unimpaired trade receivables are past due as at the reporting date.

	Group	
	2017 £000	2016 £000
Provision brought forward	97	116
Provision for bad debts of acquired companies	363	-
Debts written off	(65)	(11)
Provision released	(27)	(41)
Provision made	3	33
Movement due to foreign exchange fluctuations	(9)	-
Provision carried forward	362	97

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

	Group	
	2017 £000	2016 £000
Not more than 3 months	2,868	979
More than 3 months but not more than 6 months	42	-
	2,910	979

All impaired receivables are overdue by more than 60 days.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

17 Cash and cash equivalents

	Company		Group	
	2017 £000	2016 £000	2017 £000	2016 £000
Short term bank deposits – Group cash	37	37	37	37
Cash at bank and in hand – Group cash	2,885	5,340	19,856	25,959
Cash and cash equivalents – Group cash	2,922	5,377	19,893	25,996
Cash at bank and in hand – Client registration funds	-	-	887	-
	2,922	5,377	20,780	25,996

The Group receives cash from clients which are pass through funds solely for the purpose of payment of registration fees to regulatory bodies. This cash is separated in the day to day operations of the business, is separately identified for reporting purposes and is unrestricted.

18 Current liabilities

	Company		Group	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade and other payables				
Payments received on account	-	-	11,252	8,584
Trade payables	-	26	1,518	765
Other taxation and social security	83	101	825	941
VAT	-	-	-	367
Deferred income	-	-	-	895
Accruals	33	86	5,859	3,661
	116	213	19,454	15,213

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19 Provisions

Group	Onerous lease £000	Dilapidations £000	Other £000	Total £000
At 1 January 2016 and 1 January 2017	-	-	-	-
Provisions held by acquired companies at date of acquisition	495	183	615	1,293
Increase in provision	-	16	-	16
Gain on foreign exchange fluctuations	-	-	(18)	(18)
At 31 December 2017	495	199	597	1,291
			Group	
			2017	2016
			£000	£000
Current liabilities			825	-
Non-current liabilities			466	-
			1,291	-

Provisions for onerous leases and dilapidation provisions have been recognised at the present value of the expected obligation; the balances are undiscounted as discounting is considered to be immaterial.

The average remaining life of the leases at 31 December 2017 is 2.0 years.

Other provisions represents the best estimate of the future economic outflow of settling potential litigation claims and associated costs such as legal fees. In all cases, the claims are being investigated by our lawyers and are being robustly contested as to both liability and quantum. These claims are expected to be resolved within one year and are therefore shown within current liabilities however, it is possible that these claims may take longer to resolve. The claim may be settled at amounts higher or lower than that provided depending on the outcome of commercial or legal arguments. The provision made is management's best estimate of the Group's liability based on past experience, commercial judgement and legal advice.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20 Called-up share capital

	2017 £000	2016 £000
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	421	421
	Number	Number
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	42,062,035	42,062,035

The allotted, called-up and fully paid share capital of the Company as at 31 December 2017 was 42,062,035 shares (2016: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 39,367,128 (2016: 39,328,794).

A reconciliation of treasury shares held by the Company is as follows:

	Company	
	2017 Number	2016 Number
Reconciliation of treasury shares		
At beginning of year	2,733,241	1,002,029
Purchase of own shares	-	2,115,000
Settlement of share options	(38,334)	(383,788)
At end of year	2,694,907	2,733,241

It is the intention of the Company to hold the treasury shares for the purpose of settling employee share schemes and for settling liquidated sums of cash consideration in any future business acquisitions, and in limited circumstances to satisfy shareholder demand which market liquidity is unable to meet. No dividend or other distribution may be made to the Company in respect of the treasury shares.

During 2016, the Remuneration Committee made an offer to eligible employees of outstanding vested (or to vest in 2016) grants under the Unapproved Scheme and Performance Share Plan (limited to awards of up to 15,000 options), to buy out the share option for approximately the net realisable value. In aggregate, acceptances of the offer accounted for 1.0 million share options at an aggregate cash cost of £0.6 million paid in August 2016, and a one-off charge of £0.2 million, included within share based payments in 2016. No Director had any share options that were eligible.

The total charge relating to employee share based payment plans, all of which related to equity-settled share based payment transactions, was as follows:

Group	2017 £000	2016 £000
Equity settled share based payment charge	312	353
Accelerated charge due to cancellation in year	-	244
	312	597

Reconciliation of outstanding options	2017		2016	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At beginning of year	1,730,233	9.3	3,003,000	38.3
Granted during the year	295,000	1.0	485,000	1.2
Exercised during the year	(38,334)	82.9	(383,788)	73.2
Cancelled during the year	-	-	(1,097,313)	64.0
Lapsed during the year	(109,167)	1.0	(276,666)	4.1
At end of year	1,877,732	7.0	1,730,233	9.3

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20 Called-up share capital (continued)

The options outstanding at 31 December 2017 had a weighted average contractual life of 7.4 years (2016: 8.0 years).

Included within the total outstanding options at 31 December 2017 are 793,732 options which are exercisable (2016: 411,200). The weighted average exercise price of exercisable options at the end of the year was 7.0 pence (2016: 9 pence).

Options exercised during the year had a weighted average share price at the date of exercise of 83 pence (2016: 73 pence).

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

The fair values of options granted were determined using a variation of the Binomial Option Pricing model that takes into account factors specific to the share incentive plans including performance conditions. The performance condition attached to options granted in the year is such that 100% of the options vest dependent on the Company achieving earnings per share targets. The performance condition, which is a market condition, has been incorporated into the measurement by means of actuarial modelling. For options granted in the year, a risk free rate of 0.17% has been used and a dividend yield factor of 1.9%. The share price on the date the options were granted was 220.5 pence in September 2017. The other principal assumptions used in the valuation are set out in the table below. The underlying expected volatility was determined by reference to historical data of the Company's shares over the vesting period.

At 31 December 2017, options granted to subscribe for ordinary shares of the Company are as follows:

Date of grant	Option exercise period		Number of shares under option			Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
	From (a)	To	Approved	Unapproved	Performance Share Plan				
Jul 2010	Jul 2013	Jul 2020	40,000	-	-	51.0	14.0	10	35%
Oct 2011	Oct 2014	Oct 2021	29,062	-	-	80.0	32.9	10	65%
Nov 2012	Nov 2015	Nov 2022	96,394	4,942	-	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	-	-	306,668	1.0	80.8	10	25%
Mar 2014	Mar 2017	Mar 2024	-	-	83,333	1.0	85.3	10	21%
Sep 2014	Sep 2017	Sep 2024	-	-	233,333	1.0	74.8	10	18%
Apr 2015	Apr 2018	Apr 2025	-	-	29,000	1.0	86.7	10	16%
Sep 2015	Sep 2018	Sep 2025	-	-	295,000	1.0	77.0	10	16%
Aug 2016	Aug 2019	Aug 2026	-	-	365,000	1.0	96.5	10	21%
Sep 2016	Sep 2019	Sep 2026	-	-	100,000	1.0	81.6	10	22%
Sep 2017	Sep 2020	Sep 2027	-	-	295,000	1.0	207.1	10	24%
			165,456	4,942	1,707,334				

(a) Subject to earlier exercise in certain limited circumstances.

For all options granted prior to 2013, the exercise price is also the share price at date of grant.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20 Called-up share capital (continued)

At 31 December 2016, options granted to subscribe for ordinary shares of the Company are as follows:

Date of grant	Option exercise period		Number of shares under option			Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
	From (a)	To	Approved	Unapproved	Performance Share Plan				
Jul 2010	Jul 2013	Jul 2020	42,500	-	-	51.0	14.0	10	35%
Oct 2011	Oct 2014	Oct 2021	34,062	-	-	80.0	32.9	10	65%
Nov 2012	Nov 2015	Nov 2022	51,800	59,536	-	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	-	-	323,335	1.0	80.8	10	25%
Mar 2014	Mar 2017	Mar 2024	-	-	100,000	1.0	85.3	10	21%
Sep 2014	Sep 2017	Sep 2024	-	-	285,000	1.0	74.8	10	18%
Apr 2015	Apr 2018	Apr 2025	-	-	34,000	1.0	86.7	10	16%
Sep 2015	Sep 2018	Sep 2025	-	-	315,000	1.0	77.0	10	16%
Aug 2016	Aug 2019	Aug 2026	-	-	385,000	1.0	96.5	10	21%
Sep 2016	Sep 2019	Sep 2026	-	-	100,000	1.0	81.6	10	22%
			128,362	59,536	1,542,335				

(a) Subject to earlier exercise in certain limited circumstances

For all options granted prior to 2013, the exercise price is also the share price at date of grant

21 Borrowings

Group	2017 £000	2016 £000
Non-current		
Bank borrowings	12,676	13,664
	12,676	13,664
Current		
Bank borrowings	1,250	1,000
	1,250	1,000
Total borrowings	13,926	14,664

Science Group plc, the Company, had no bank borrowings at the start or end of the year.

During the year ended 31 December 2016, the Group entered into a new 10 year fixed term loan of £15 million which is secured on the freehold properties of the Group and on which interest is payable based on LIBOR plus 2.6% margin. The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repaid on expiry of the loan in 2026. Costs directly associated with entering into the loan of £90,000 were incurred, have been offset against the balance outstanding and are being amortised over the period of the loan.

The new term loan has no operating covenants while the Group net bank debt is less than £10 million. If this threshold is crossed, two conditions apply: a financial covenant, measured half-yearly on a 12 month rolling basis, such that annual EBITDA must exceed 1.25 times annual debt servicing (capital and interest); and a security covenant whereby the loan to value ('LTV') ratio of the securitised properties must remain below 75%. If either of these conditions is breached, a remedy period of 6 months is provided, during which time the EBITDA or LTV condition can be remedied or the net bank debt can be reduced to less than £10 million.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

21 Borrowings (continued)

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

Group	2017 £000	2016 £000
Within one year	1,250	1,000
Between 1 and 2 years	1,000	1,000
Between 2 and 5 years	3,000	3,000
Over 5 years	8,750	9,750
Total	14,000	14,750

As a result of 31 December 2017 falling on a Sunday, the Quarter 4 loan repayment was paid on 2 January 2018.

In order to address interest rate risk, the Group entered into phased interest rate swaps in order to fully hedge the loan resulting in a 10 year fixed effective interest rate of 3.5%. The Group has adopted hedge accounting for the interest rate swap under IAS 39, *Financial Instruments*, and the gain on change in fair value of the interest rate swaps entered into in 2017 of £30,000 (2016: £197,000) was recognised directly within equity.

The fair value of the swap at 31 December 2017 was an asset of £227,000 (2016: £197,000).

22 Acquisition of Technology Sciences Group

On 06 September 2017, the Group acquired 100% of the equity of Technology Sciences Group Inc, Technology Sciences Group Limited and associated subsidiaries ('TSG') from Dentons Innovation Group US, LLC. TSG provides scientific advisory and regulatory services to a diverse client base in the Agricultural, Chemical, Consumer, Cosmetic, Medical Device and Food & Beverage industries. The acquisition is expected to enable the Group to accelerate its development in this identified growth and investment area.

The consideration of £13.7 million (\$17.8 million) was satisfied by £13.2 million (\$17.0 million) in cash on completion and £0.5 million (\$0.8 million) as contingent consideration. As part of the acquisition, the Group incurred costs of £0.8 million which include stamp duty, legal fees associated with the acquisition and one off costs relating to the integration of the TSG companies.

Technology Sciences Group contributed £4.9 million revenue for the period between the date of acquisition and the balance sheet date and a loss of £0.2 million to the Group's profit before tax which includes an allocation of costs and management recharges of £0.1 million. If the acquisition of Technology Sciences Group had been completed on the first day of the financial year, Group revenue would have been £10.7 million higher and the Group profit before tax would be reduced by a loss of £0.9 million.

Contingent consideration

	Group 2017 £000
Contingent consideration at acquisition	530
Unwind of discount (Note 6)	6
Gain on foreign exchange fluctuations	(17)
Contingent consideration at 31 December 2017	519

Contingent consideration is linked to certain agreed conditions on the vendor of TSG. The certain conditions are in place from the date of acquisition until 31 December 2019 and if met, the contingent consideration falls due on 31 December 2019.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

22 Acquisition of Technology Sciences Group (continued)

The acquisition is recognised as two distinctive cash generating units identified as TSG Americas and TSG Europe for the purpose of the recognition of the acquisition related intangible assets.

	Book value	Key judgements and estimates	Fair value adjustments	Fair value
	£000	£000	£000	£000
Net assets acquired:				
Acquisition related intangible assets	-	-	5,726	5,726
Property, plant and equipment	129	-	-	129
Trade and other receivables	3,769	-	-	3,769
Cash and cash equivalents – Client registration funds	108	-	-	108
Cash and cash equivalents – Group cash	2,649	-	-	2,649
Trade and other payables	(3,630)	-	-	(3,630)
Provisions (Note 19)	(678)	(615)	-	(1,293)
Current tax liability	(156)	-	-	(156)
Deferred tax asset/(liability)	226	-	(1,308)	(1,082)
	2,417	(615)	4,418	6,220
Goodwill				7,502
Total consideration				13,722
Satisfied by:				
Cash consideration				13,192
Contingent consideration				530
				13,722
Net cash outflow arising on acquisition:				
Total cash consideration				13,192
Cash and cash equivalents – Client registration funds				(108)
Cash and cash equivalents – Group cash				(2,649)
Net cash outflow on acquisition				10,435

Provisions of £0.6 million were recognised at the date of acquisition arising from key judgements and estimates. An explanation of the provisions is included in Note 19. These provisions are based on management's best estimates using the facts and circumstances that are available. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, the accounting for the acquisition will be revised.

Fair value adjustments have been recognised for acquisition related intangible assets and the related deferred tax.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

22 Acquisition of Technology Sciences Group (continued)

The table below is a summary of the acquisition related intangible assets and goodwill arising from the acquisition of TSG (Note 13):

	Group	
	Customer Relationships and contracts £000	Goodwill £000
TSG Americas	2,609	3,166
TSG Europe	3,117	4,336
Total intangible assets on acquisition	5,726	7,502

The goodwill arising is attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the businesses.

Acquisition related intangible assets of £5.7 million relate solely to the valuation of customer relationships. Technology Sciences Group has worked with a number of blue-chip companies for a number of years. Given the long standing relationships and nature of the customer base, the intangible asset is being amortised over six years for TSG Europe cash generating unit and seven years for the TSG Americas cash generating unit.

A deferred tax liability of £1.3 million in respect of the acquisition related intangible assets was established on acquisition (Note 10).

23 Commitments

(a) Operating lease commitments

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

Group	2017 £000	2016 £000
Plant and equipment lease commitment		
- Within 1 year	111	46
- In the second and fifth years inclusive	179	80
	290	126
Property lease rental		
- Within 1 year	634	269
- In the second and fifth years inclusive	2,230	-
	2,864	269
Total operating lease commitments	3,154	395

Operating lease commitments represent rentals payable by the Group for certain of its property, plant and equipment to the next lease break clause or to the end of the lease, whichever is sooner.

(b) Other financial commitments

At 31 December 2017 the Group and the Company had other financial commitments of £nil (2016: £nil).

24 Contingent liabilities

At 31 December 2017, there were £nil contingent liabilities (2016: £nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

25 Related party transactions

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

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

Company	2017	2017	2016	2016
	Loans	Sale of goods and services	Loans	Sale of goods and services
	£000	£000	£000	£000
Sagentia Limited	(2,928)	177	(12,061)	130
OTM Consulting Limited	-	34	-	65
Quadro Design Limited	-	-	-	-
Sagentia Inc.	-	-	-	-
Manage5Nines Limited	-	-	-	-
Sagentia Technology Advisory Limited	(10)	-	-	-
Oakland Innovation Limited	-	94	-	65
Leatherhead Research Limited	-	88	-	260
Technology Sciences Group Limited	1,153	40	-	-
	(1,785)	433	(12,061)	520

During the year, the Group entered into transactions with Creative (ID) Design Limited ('Creative'). Creative has provided consultancy services to Sagentia Limited (a subsidiary of Science Group plc) and a cost of £137,000 was charged to Sagentia Limited (2016: £70,000). An accrual of £13,000 was outstanding at year end (2016: £19,000). Creative has a licensing agreement in place with Sagentia Limited to occupy office space. During the year ended 31 December 2017, £19,900 was charged to Creative in relation to this agreement (2016: £25,900).

Science Group plc also entered into a transaction with Cambridge Medical Technologies Limited ('CMT') (previously known as Clinitech Limited). One of the Directors of Science Group plc, Michael Lacey-Solymar, is also a Director of CMT and Director and Shareholder of CMT's ultimate parent company. Sagentia Limited (a subsidiary of Science Group plc) entered into an agreement with CMT on 26 September 2014 to lease office space to CMT. During the year ended 31 December 2017, £6,700 (2016: £5,000) was charged to CMT in relation to this agreement.

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

Aggregate remuneration

Year ended 31 December	2017	2016
	£000	£000
Short-term employee benefits	1,707	1,496
Pension costs	44	49
Share based payment transactions	114	119
	1,865	1,664

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26 Critical accounting estimates and judgements

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

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

(a) Critical accounting estimate

Project accounting

Science Group undertakes a number of consultancy projects where the final price to complete the project may be uncertain. The majority of projects are priced on a time and materials basis and estimates are provided to clients for the agreed scope. Due to the challenging technological nature of the services provided, in some cases the estimates are understated and these are communicated to the client as quickly as practicable. In the unusual event of an overrun, management apply their judgement in assessing time required to complete the projects and the ability to recover the full project costs. Where significant uncertainty exists, income is deferred until costs are recovered or the project is completed.

Provisions

Provisions have been recognised and management have determined estimates based on the information available. Additional disclosure of these estimates of provisions are included in Note 19.

(b) Significant accounting judgement

Accounting for freehold property at Harston Mill

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

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

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

Acquisition related intangible assets

Science Group uses assumptions in the determination of acquisition related intangibles as disclosed in Note 13 and Note 22. Part of these assumptions are based on existing market conditions and prevailing trends which would impact on valuation of acquisition related intangible assets. Specific assumptions are used in the determination of client retention rates, contributions to earnings before interest and taxation and life span of the intangible asset.

Impairment testing

The recoverable amounts of cash generating units and individual assets have been determined based on the higher of the value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the cash flow assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of intangible and tangible assets.

Science Group reviews and tests the carrying value of assets when events or changes in circumstance suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26 Critical accounting estimates and judgements (continued)

Trade receivables and loan and receivables

Science Group assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit and loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. A provision for bad debts are based on the uncertainty that may exist on each receivable outstanding.

The Group assesses its loan receivables and investments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in the profit and loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from the financial asset.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Science Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Science Group recognises net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to the expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction.

27 Post balance sheet events

There are no post balance sheet events to disclose.

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