Annual Report and Financial Statements 2018

science group plc

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Chairman's Statement

In 2018, 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.

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.

In 2018, 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 Overview

For the year ended 31 December 2018, Group revenue increased by 19% to £48.7 million (2017: £40.8 million) assisted by the full year contribution from the TSG acquisition in September 2017. Core Business services revenue was £46.5 million (2017: £38.4 million). North America continues to be a major market for the Group accounting for 40% of Core Business revenue in 2018 (2017: 43%) and Europe (excluding the UK) accounted for 38% (2017: 36%). In 2018, the Group revenue would have been £0.2 million higher on a constant currency basis relative to the prior year.

Adjusted operating profit for the year ended 31 December 2018 was £7.7 million (2017: £6.9 million) including a negative foreign exchange effect of £0.1 million and reflecting the anticipated lower margin contribution from TSG during the integration. Statutory profit before tax was £4.9 million (2017: £3.9 million) resulting in basic earnings per share ('EPS') of 10.7 pence (2017: 7.7 pence). An alternative performance measure of adjusted basic EPS which applies consistent tax rates was 14.7 pence (2017: 12.8 pence). (Adjusted operating profit and other Alternative Performance Measures used in this report are defined in the Financial Report and within the notes to the financial statements.)

The Group's cash balance at 31 December 2018 was £21.5 million (2017: £19.9 million) with net funds of £8.8 million (2017: £6.0 million) including bank debt of £12.75 million (2017: £14.0 million). (These figures exclude cash held separately on behalf of clients to pay

Strategic Report (continued)

Chairman's Statement (continued)

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. Since the year end, the bank debt has been increased by an additional £4.75 million at an effective fixed rate of 4.0% on otherwise similar terms.

The Board is proposing to increase the dividend to 4.6 pence per share (2017: 4.4 pence per share), at a total cost of £1.8 million (2017: £1.8 million). Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be payable on 17 May 2019 to shareholders on the register at the close of business on 26 April 2019.

Business Overview

The strategy and structure of the Group's services operations are based around a range of science-based Service Offerings being provided into Market Sectors where the Group has industry expertise.

There are four primary service offerings: applied science; product development; technology advisory; and regulatory services. The Group's service delivery teams are formed of highly qualified specialists from the sciences and technical disciplines including mathematicians, physicists, chemists, microbiologists, toxicologists, food scientists etc, working alongside electronic, mechanical and software engineers, and regulatory experts. The Group's UK freehold properties provide excellent R&D facilities with extensive laboratories designed for each scientific and/or engineering discipline. Science Group's reputation is built around solving diverse, complex problems and providing sophisticated advisory and regulatory services, derived from science or technology by bringing together combinations of specialists from across the Group.

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These services are marketed into vertical sectors: medical, food & beverage and commercial (comprising consumer, industrial, chemical and energy sub-sectors). The vast majority of the work undertaken by Science Group is related to the future product or market developments of our clients and is therefore confidential. While the client profile will vary significantly between the different vertical market sectors, in aggregate the Group has a diverse client base of over 1,500 organisations. In 2018, the Group's largest customer accounted for approximately 7% of Group Core Business revenue.

In the **Medical** sector, the Group's clients are primarily global medical product manufacturers within diagnostics, surgical, pharmaceutical and bio-technology sub-sectors, but the business also partners with well-funded start-up organisations wishing to bring innovative technologies to market. This sector tends to have significant client concentration due to the size of programmes undertaken, which have included projects

to develop next generation therapies, technologies and systems in areas such as cancer therapy, diagnostics systems, advanced surgical instruments, digital health applications and software. All product development work, which is the largest component in the Medical sector, is undertaken to exacting medical regulatory standards.

Key projects in 2018 included working with a leading international medical technology company to develop its next generation advanced radiotherapy system for cancer treatment and, for a broad-based healthcare provider, the Group helped develop a new diagnostics platform enabling high volume, low-cost diagnostic methods using specialist biochemistry and materials science skills. The Group also undertook an advisory project to identify applications and market opportunities for a potentially disruptive imaging technology which required

Strategic Report (continued)

Chairman's Statement (continued)

soliciting insight into clinical workflows, analysing healthcare economics and road-mapping the potential technology roll-out.

In the **Food & Beverage** sector, the Group's clients include many of the world's leading manufacturers, retailers and service companies in this market. Providing services across all axes of the business (applied science, advisory, product development and regulatory services), the Group addresses client challenges such as the science of food reformulation for nutritional benefits or food safety; developing novel beverage dispensing systems; and the regulatory and consumer insight aspects of geographic expansion or market entry. To support clients in this important market, Science Group, provides one of the world's most international subscription-based services for regulatory and other advice in the sector.

Examples of work over the past year have included supporting a leading beverage company in its globalisation strategy by mapping the regulatory landscape in its major geographic markets. In the "fast food" market, the Group helped a major food service brand redevelop and reposition one of its core products through undertaking scientifically robust consumer insight analysis. Working with a leading food manufacturer, the Group also helped determine the impact of food processing on the nutritional profile of its products.

In the **Commercial** sector, the Group works across all the service axes with a diverse client base including consumer products' organisations, leading energy companies and the world's pre-eminent chemical organisations. Examples of development projects in the past year include developing a home-use, spa-like beauty device delivering personalised skincare and, for a leading agritech company, the Group helped develop an intelligent precision-dispensing system that aims to reduce the environmental impact of chemical use in farming. The Group's regulatory teams provide Human and Environmental Health services for the chemicals market including pesticide/bio-pesticide, biocide, industrial/specialty chemical sectors with clients predominantly in the US and Europe. In the US, the Registration and Renewals programme renewed more than 20,000 state registrations for clients in the pesticides, fertilizers and animal feed markets.

Corporate Strategic Review
During the latter part of the year, a review of the Group's corporate strategy and structure was undertaken. The conclusion, which was reported on 24 January 2019, reaffirmed the strong platform that the Group has established and the potential for the future. In addition, a number of tangible actions were identified:

- It was recommended that the Harston Mill property be transferred from the Sagentia operating company to a separate company unrelated to operating activities. If completed, this will incur a tax cash outflow of approximately £2 million, a proportion of which is anticipated to be recoverable in future years by utilising tax losses carried forward. Subsequent analysis indicates that this tax charge may reduce by around £0.2 million if the transfer is deferred for a year due to the reduction in corporation tax and, while still investigating, the Board will consider the relative merits before implementation.
- Future reporting will separate the operating business from the property companies, with Group/PLC costs being disclosed separately. This will provide greater transparency to shareholders of the value of the components of the Group.
- The Group's long-term bank debt, secured on the properties, provides an attractive capital structure to pursue the Group's strategy. Following completion of the strategic review, the bank debt has now been increased by a further £4.75 million, as reported on 20 February 2019.
- The Board will consider a much wider scope for acquisitions which may or may not have synergies with the existing business activities.

The structured framework of a formal review enabled the Board to consider the appropriate capital sources and allocation, together with the structure of the Group, in order that the resources, both capital and management, can

Strategic Report (continued)

Chairman's Statement (continued)

be best deployed to deliver returns to shareholders and facilitate the Group's strategy. The actions resulting from the strategic review are ongoing.

Board Composition
Following on from the strategic review, in order to deliver value to shareholders, there is a requirement for management to both drive the corporate strategy and to execute on the operational delivery. While these roles need to be closely coordinated, the demands are different. Since 2010, I have been the Executive Chairman of the Group and this remains unchanged. During that time, the Group has grown substantially and it is now appropriate to appoint a Board Director with responsibility for the current business operations, particularly given that the strategic review opened up a wider remit for the Group's corporate development.

The Board is therefore pleased to announce that Mr Dan Edwards is to be appointed to the Board of Science Group plc after the Annual General Meeting this year. Mr Edwards has an Engineering degree from the University of Cambridge and an MBA from Harvard Business School. Having joined the company in 2004, Mr Edwards has been Group Managing Director for the past 3 years and the elevation to the Group Board is recognition of the development of his role.

The Board will thereafter include an Executive Chairman, who is also the Company's largest shareholder, with overall responsibility for the Group but particularly focusing on the corporate and strategic development; the Group Managing Director will take increasing responsibility for the operating performance of the businesses, supported by an Operating Management Team; and the Group Finance Director.

Corporate governance is ensured by the Board's two independent Non-Executive Directors, who will both be standing for re-election at this year's Annual General Meeting. In the case of Mr David Courtley, he has now served nine years as a Director and the Board has requested that he serve for one more year before retiring. During the coming year, a new Non-Executive Director will be appointed to enable a smooth transition.

Summary and Outlook
The financial performance of the Group in 2018 was in line with the Board's expectations and the integration of TSG, acquired in September 2017, made good progress. The Group retains a very strong balance sheet, including substantial freehold property assets which enable the Group to include long-term debt, on attractive terms, in its capital structure. This combination provides the foundation for the year ahead and a reassuring financial stability in an unpredictable world.

The current year has started satisfactorily across most business areas, although the USA regulatory operations were significantly impacted by the protracted Government shutdown in January. In the current environment, characterised by the ongoing Brexit negotiations but also reflecting wider political and economic uncertainty, the Board remains cautious. From an operational perspective, Brexit offers both risks and opportunities for the Group with considerable variability between the effect on the Group's service offerings and market sectors. One potentially volatile factor derived from the current political environment, which affects all international trading organisations, is the exchange rate of foreign currencies relative to Sterling. The US Dollar and, to a lesser extent, the Euro conversion rates are particularly relevant to Science Group and may experience significant movements. The Board will monitor and evolve the Group's business activities to maximise opportunities and mitigate risks.

The Group's strong financial base provides a platform for organic investment and acquisitions associated with the current operating businesses. Following the strategic review, the Board's remit has also been widened to explore the potential opportunity to deploy capital and management resources into new areas that the Board considers may deliver returns to shareholders. There can never be any certainty that such investments will be completed and the Board will maintain its prudent and cautious approach, particularly in the current environment.

Martyn Ratcliffe
Chairman

Strategic Report (continued)

Financial Report

In the year ended 31 December 2018, the Group generated revenue of £48.7 million (2017: £40.8 million). Revenue from Core Business activities, that is revenue derived from delivering projects and consultancy services and materials recharged on these projects, increased to £47.6 million (2017: £39.7 million) due to the inclusion of the full year results of TSG, acquired in September 2017. Non-Core revenue, comprising property and associated services income derived from space let in the Harston Mill facility, was £1.1 million (2017: £1.1 million).

Adjusted operating profit increased to £7.7 million (2017: £6.9 million), an adjusted operating profit margin of 15.9% (2017: 16.9%). For the businesses within the Group excluding TSG, the adjusted operating profit margin has increased year on year. The margin within the TSG business improved in 2018, although TSG operated at a lower margin compared to the remainder of the Group and this results in the lower consolidated adjusted operating profit margin. (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 the notes to the financial statements for further information on this and other alternative performance measures).

Statutory operating profit of £5.3 million (2017: £4.4 million) included one-off costs related to the TSG acquisition of £0.1 million (2017: £0.8 million) and the release of contingent consideration of £0.5m (2017: £ nil). Statutory profit before tax was £4.9 million (2017: £3.9 million) and statutory profit after tax was £4.3 million (2017: £3.0 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 2018, £16.6 million of the Group Core Business revenue was denominated in US Dollars (2017: £14.0 million) and £5.7 million of the Group Core Business revenue was denominated in Euros (2017: £4.1 million). The exchange rates during the year resulted in a negative revenue impact of £0.2 million and negative operating profit impact of £0.1 million, when compared to the rates in effect during 2017. The Group continues to monitor the volatility of exchange rates and to date has decided not to utilise foreign exchange hedging instruments.

The tax charge in the Consolidated Income Statement of £0.6 million (2017: £0.9 million) results in an effective tax rate of 11.9% (2017: 22.2%). The low effective tax rate is due to £0.2 million adjustment in respect of prior years and £0.4 million arising from R&D tax credits. An additional tax cost of £0.1 million has been recognised in relation to the Tax Cuts and Jobs Act in the US (2017: £0.1 million).

At 31 December 2018, Science Group had £10.8 million (2017: £11.4 million) of tax losses carried forward of which £0.4 million (2017: £0.6 million) relate to trading losses which are anticipated to be used to offset future trading profits. The remaining tax losses of £10.4 million (2017: £10.8 million) have not been recognised as a deferred tax asset due to the low probability that these losses will be able to be utilised in operating activities. However, the possible transfer of the Harston Mill property out of Sagentia Limited and into Sagentia Technology Advisory Limited may enable more of these historic tax losses to be utilised and this will remain under review in 2019.

Statutory basic earnings per share ('EPS') was 10.7 pence (2017: 7.7 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 is also 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 14.7 pence (2017: 12.8 pence).

Cash generated from operations excluding Client Registration Funds ('CRF') was £6.8 million (2017: £7.8 million). Reported cash generated from operations in accordance with IFRS was £7.4 million (2017: £8.6 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. 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 Group's freehold properties. 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, the cost of the loan arrangement fee and the cost of the swap instruments. 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 IFRS 9, *Financial Instruments*, and the gain on change in fair value of the interest rate swaps was £66,000 (2017: £30,000) which was recognised directly within equity. Subsequent to the year end, the Board increased the loan with Lloyds to £17.5 million on similar terms along with a further interest rate swap, which effectively fixed the interest rate for the increment at 4.0%.

Strategic Report (continued)

Financial Report (continued)

The Group has maintained its strong balance sheet with shareholders' funds at 31 December 2018 of £41.0 million equivalent to 102.3 pence per share in issue (2017: shareholders' funds of £37.7 million, equivalent to 95.9 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 £21.6 million (2017: £21.7 million). The Board undertook formal independent property valuations in March 2018 and the balance sheet (cost-based) value of the freehold property is at the bottom end of the range of the independent market valuation obtained. (The aggregate "Vacant Possession" valuation was estimated at £22.6 million and, based on market rents and property yields at that time, the aggregate sale & leaseback valuation was estimated at £33.9 million.)

The Group cash position (excluding CRF) at 31 December 2018 was £21.5 million (2017: £19.9 million) and net funds were £8.8 million (2017: £6.0 million). CRF of £1.5 million (2017: £0.9 million) were held at the year end. Working capital management during the year continued to be a focus with debtor days of 37 days at 31 December 2018 (2017: 45 days) while combined debtor and WIP days reduced to negative 9 days (2017: negative 4 days). (WIP is defined as the net of accrued income and payments received on account). Net-funds-plus-freehold-property-per-share, an alternative performance measure (refer to the notes to the financial statements for the calculation), was 75.9 pence per share (2017: 70.3 pence per share) based on the balance sheet value of the properties.

At 31 December 2018, the Company had 40,040,227 ordinary shares in issue (2017: 39,367,128) and held an additional 2,021,808 shares in treasury (2017: 2,694,907). All references in this report to measures relative to the number of shares in issue exclude shares held in treasury unless explicitly stated to the contrary.

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 Financial Report.

Principal Opportunities and Risks

The Directors consider that the principal opportunities and risks facing the Group are as set out below. The Board has carried out a robust assessment of the principal risks, including those that would threaten its business model, future performance, solvency or liquidity. In addition the Board and Executive Management team regularly review existing and emerging risks across the Group on a monthly basis which is a period the Board considers appropriate in an outsourced services environment. The Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period. A summary of the key measures taken to mitigate those risks are also set out below.

Technology advances
The on-going development of new and existing technologies provide opportunities for Science Group to provide market-leading services to its clients. The Group's personnel must stay at the forefront of technical advances and understanding of technical specialisms in order to exploit these opportunities and sustain the Group's growth.

The Group seeks to do this by the regular identification and review by management of new technical areas for investment; providing a budget for investment by managers in new ideas; encouraging employees to keep up to date on technological developments by both formal and informal training and self-learning in relevant areas of technical expertise; and recruiting employees with new technical skills where gaps in expertise are identified.

Market for outsourced services
Science Group is dependent on the global market for outsourced science-based services. This provides both opportunities and risks, depending on the performance of and confidence in the Group's target geographies and markets. 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. Conversely, a reduction in internal resources by clients may result in greater levels of outsourcing for business critical projects.

The Group seeks to capitalise on these opportunities and mitigate these risks 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.

Strategic Report (continued)

Principal Opportunities and Risks (continued)

Brexit
The uncertainties and potential effects of Brexit provide both risks and opportunities for Science Group.

There is uncertainty regarding the short, medium and long-term impact Brexit 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.

The Group has a continental Europe presence which may be able to be further leveraged to provide services from within the EU. Furthermore, uncertainty around the legislative and regulatory landscape following Brexit provides opportunities for growth of the Group's regulatory services.

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.

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.

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, both positive and negative, 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 based service offerings. The Board considers further acquisitions to be a core part of the Group's strategy and the Group is continually monitoring opportunities for strategic acquisition opportunities. Acquisitions provide significant opportunities for growth and diversification, whilst increased scale provides efficiencies of back office and central services across the Group.

However, 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 instill 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.

Strategic Report (continued)

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 14.

Employees, training and development
Science Group's employees are the business' primary asset and the Board and Executive Team are committed to investing in their career development and rewarding exceptional performance. 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.

The Board regularly monitors the Group's culture and practices, including the review of recruitment, retention and turnover data, health & safety reports, and reports from senior managers within the Group.

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.

The gender ratio for the number of persons employed by Group at the end of the year are set out in the table below.

	31 December 2018				**31 December 2017**			
	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)	**73**	**59%**	**51**	**41%**	67	56%	52	44%
Other employees	**119**	**48%**	**130**	**52%**	112	41%	160	59%
Total employees	**197**	**52%**	**184**	**48%**	184	46%	215	54%

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.

Strategic Report continued

Corporate Responsibility (continued)

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 annually 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 4 March 2019 and signed on its behalf by:

Martyn Ratcliffe
Chairman

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 2018.

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 Financial 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 26.

Subject to shareholder approval at the next Annual General Meeting, the Directors propose to pay a dividend of 4.6 pence per share for the year ended 31 December 2018 (2017: 4.4 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 23 to the Financial Statements. The Company has one class of ordinary shares which carry no right to fixed income.

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

Directors
The Directors and associated biographies are listed on page 13. Rebecca Archer, the Finance Director, is currently taking maternity leave and anticipates returning to a full-time role in Q3 2019.

David Courtley and Michael Lacey-Solymar will retire by rotation and offer themselves for re-election at the next Annual General Meeting. The Board notes that, if re-elected at the next Annual General Meeting, David Courtley will have been a Non-Executive Director of the Company for more than 9 years. In light of Mrs Archer's maternity leave and the Company's recent corporate strategic review activity, the Board considers it appropriate for Mr Courtley to be re-elected for an additional year to provide continuity and stability to the Board. The Board considers that Mr Courtley remains independent.

Directors' interests in shares and contracts
Directors' interests in the shares of Science Group plc at 31 December 2018 and 31 December 2017, and any changes subsequent to 31 December 2018, are disclosed in Note 9. 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 24 April 2019 at Harston Mill, Harston, Cambridge, CB22 7GG. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

Purchase of own shares
At the AGM on 19 April 2018, 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 2019 or 30 June 2019 if earlier. As at the date of this report, the Company has bought back 4,800 shares pursuant to this authority. For further information refer to Note 23.

Substantial shareholdings
As at 1 March 2019, 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	33.5%
Canaccord Genuity Group Inc	6,839,479	17.1%
Ruffer LLP	4,419,512	11.0%
Otus Capital Management	2,434,810	6.1%
Miton Asset Management	1,838,359	4.6%
Charles Stanley & Co	1,393,070	3.5%

Report of the Directors (continued)

Employees
The average number of persons, including Directors, employed by the Group and their remuneration is set out in Note 8 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. As a result, total charitable contributions made in 2018 were £305 (2017: £11,000). No political donations were made during the period (2017: £nil).

Post balance sheet events
Post balance sheet events are disclosed in Note 29 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 AGM.

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 2018	Date of (re-) appointment	Board Committee		
Martyn Ratcliffe	Chairman	19/04/2018		N	
Rebecca Archer	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 – 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').

Adoption of recognised corporate governance code
The Board has adopted the Financial Reporting Council's UK Corporate Governance Code July 2016. The Company's statement of compliance and associated disclosures are available on the investor pages of the Company's website.

Board of Directors
Biographical details of the Directors are included on page 13.

At 31 December 2018, 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.

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 13 times during 2018 (2017: 17). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically meets ten times a year to consider a formal schedule of matters including the operating performance of the business and to review 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 2018, 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.

The Board conducts an annual internal evaluation of the Board and its committees, the results of which are reviewed and discussed by the Board. Due to the small size of the Board, there is an annual evaluation of the Board and its committees in accordance with the articles of association and informal performance evaluations of directors and the Chairman by the Board on a regular basis which is considered sufficient.

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 2018 (2017: 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 5 times during 2018 (2017: 8). It may take advice from time to time from external advisers, but did not do so in 2018. 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 2018 (2017: 1). It may take advice from time to time from external advisers, but did not do so in 2018. 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 2018 were as follows:

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in 2018	13	3	5	1
Martyn Ratcliffe	13	3*	5*	1
Rebecca Archer	13	3*	4*	1*
David Courtley	13	3	5	1
Michael Lacey-Solymar	13	3	5	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-Solymar.

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. 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 2018.

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. The bonus scheme includes a claw back mechanism in certain circumstances for the Executive Team and other senior managers;
- 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 9 to the Financial Statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

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 2018 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.

Director and Executive Team contracts and remuneration
The Executive Directors and Executive Team 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.

The Chairman and Non-Executive Directors receive a fixed salary. The Chairman does not participate in the Group bonus scheme but, if appropriate, the Remuneration Committee may award a discretionary bonus. Remuneration of the Executive Directors (excluding the Chairman) and Executive Team follows a simple structure of base salary, bonus and long term incentives using share options, including under the Enhanced Executive Incentive ('EEI') addendum to the PSP plan that was approved by shareholders at the 2018 AGM.

The market price of the shares at 31 December 2018 was 210.0 pence (2017: 205.5 pence). The highest and lowest price during the year was 260.0 pence and 200.0 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 – 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.

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 2 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 is a whistleblowing policy in place for the reporting and resolution of suspected fraudulent activities. During the year the Group has undertaken a review of payment processes, updating controls where appropriate to minimise the risk of 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/strategy 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 2018. 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.

Auditors

During the year KPMG LLP were re-appointed as auditor for a third year. Their initial appointment in 2015 followed a full tender process undertaken with three audit firms. The Audit Committee considers annually whether to retender for audit services and, in light of the acquisition and integration of TSG and the Finance Director's maternity leave, it is not considered appropriate to retender at this stage.

The Audit Committee considers the independence of the auditors as part of considering their annual re-appointment. KPMG have provided services in relation to the annual audit of the Group and also provided taxation advice in relation to the acquisition of TSG, the freehold property and international taxation. Audit Committee approval is required for the provision of non-audit services by KPMG in order to safeguard auditor independence.

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. The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

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 confirm that they consider it appropriate to adopt the going concern basis of accounting in preparing the Annual Report and financial statements.

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 4 March 2019 and signed on its behalf:

By order of the Board

Sarah Cole
Company Secretary

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 2018 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 2.

In our opinion:

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

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

2 Key audit matters: including 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. We summarize below the key audit matters in arriving at our audit opinion above. 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.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 8 (principal risks), page 17 to 18 (Audit Committee Report), page 33 (accounting policy) and page 40 (financial disclosures).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of goodwill and intangible assets and recoverability of parent company's investment in subsidiaries below (together referred as "key audit matters affected"), and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's and Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and to consider the directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge:** considering the directors' assessment of Brexit-related sources of risk for the Company's and Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. **Sensitivity analysis:** when addressing the key audit matters affected and other areas that depend on forecasts, comparing the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency:** as well as assessing individual disclosures as part of our procedures on the key audit matters affected, considering all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

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

	The risk	Our response
Impairment of goodwill and intangible assets ((Goodwill: £11,239k (2017: £11,239k)) (Acquisition related intangibles: £7,495k (2017: £9,499k)) Refer to page 35 (accounting policy) and pages 55 to 57 (financial disclosure).	**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 was focused.	**Our procedures included:** **Historical comparisons:** assessing the reasonableness of the budgets by considering the historical accuracy of previous forecasts. **Our sector experience:** assessing whether assumptions used, in particular those relating to revenue growth rates and EBITDA margins, reflect our knowledge of the business and industry, including known or probable changes in the business environment. **Benchmarking assumptions:** challenging, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rates by comparing them to externally derived data, including available sources for comparable companies. **Sensitivity analysis:** performing sensitivity analysis on the key assumptions noted above. **Assessing transparency:** assessing the adequacy of the Group's disclosures (see Note 14) in respect of impairment testing and considering whether the disclosures reflected the risks inherent in the valuation of goodwill and other acquisition related intangibles.
Revenue recognition (Project revenue £44,191k (2017: £36,385k)) Refer to page 38 (accounting policy) and page 69 (critical accounting estimate disclosure).	**Subjective estimate** The Group undertakes a number of consulting projects which are billed on a time and materials basis and also fixed price contracts. The Group determined an hour of work performed as performance obligation for all consultancy contracts. 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 realized, which results in unrecoverable work in progress. In such scenarios the level of revenue to be recognized is dependent on the assessment of progress to date and the required hours to complete. A significant level of judgement is involved to assess the recoverability of work in progress (actual materials and time charged) and determining the appropriate level of provision.	**Our procedures included:** **Control operation:** testing the design and operating effectiveness of controls related to revenue recognition. **Accounting analysis:** for a sample of contracts, determined on the basis of technical and commercial complexity, financial significance and profitability and stage of the contract, assessing whether the judgements made by management over the stage of completion, charge out rates and estimated costs, are consistent with our understanding of contract activities and performance, including considering managements historical experience on similar contracts. **Input assessment:** agreeing, for the sample above, observable inputs used in the calculations, including costs incurred and charge out rates to source data, such as timesheets, customer contracts and correspondence, where relevant. **Expectation vs. outcome:** comparing the work in progress provision levels to prior year (as a percentage of total revenue and percentage of contract assets) and analysing the level of historic and post year end write offs; investigating material variances by inquiring the directors and considering our knowledge of the contract performance. **Assessing transparency:** assessing the adequacy of the Group's disclosures (see Note 5) about the degree of estimation involved in recognizing revenue.

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

	The risk	Our response
Recoverability of parent company's investment in subsidiaries (Cost of investment: £37,046k (2017: £36,271k) Refer to page 35 (accounting policy) and pages 59 to 60 (financial disclosures).	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 77% (2017: 87%) 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.	**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:** considering the results of our audit work over the 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 as described in the impairment key audit matter above.

Since there have been no acquisitions during the year, therefore we have not assessed acquisition accounting as one of the significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality: Group financial statements as a whole	£250k (2017:£191k)
	5% of group profit before tax (2017: 5% of group profit before tax)

Materiality for the Group financial statements as a whole was set at £250k (2017:£191k) and determined with reference to a benchmark of group profit before tax, of which it represents 5% (2017: 5%) of group profit before tax.

Materiality for the parent company financial statements as a whole was set at £145k (2017: £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 (2017: £9k), in addition to other identified misstatements that we believe warranted reporting on qualitative grounds.

Of the Group's 19 components (2017: 18 components), we subjected 9 (2017: 9) 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 (2017: 9 components) within the scope of our group reporting work, all 9 (2017: 9), including the parent company, were covered by the Group audit team.

The component materialities ranged from £1k to £200k (2017: £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
2018	**9**	**91%**	**100%**	**96%**
2017	9	92%	89%	98%

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

4 We have nothing to report on going concern

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

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's and the Group's business model, including the impact of a disorderly Brexit, and analysed how those risks might affect the Company's and the Group's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on our work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

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

5 We have nothing to report on the other information in the Annual Report

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

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

Strategic report and directors' report
Based solely on our work on the other information:

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

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.

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

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 18, 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

4 March 2019

Financial Statements

and Notes to the Financial Statements

Consolidated Income Statement

For the year ended 31 December 2018

	Note	Group 2018 £000	Group 2017 £000
Revenue	5	**48,670**	40,823
Operating expenses before adjusting items	6	**(40,939)**	(33,917)
Adjusted operating profit	4	**7,731**	6,906
Amortisation of intangible assets	14	**(2,004)**	(1,410)
Impairment of other investments	16	**(50)**	–
Acquisition integration costs		**(76)**	(812)
Release of contingent consideration	21	**519**	–
Share based payment charge	8	**(812)**	(312)
Operating profit		**5,308**	4,372
Finance income	7	**10**	3
Finance costs	7	**(451)**	(496)
Profit before income tax		**4,867**	3,879
Income tax charge (including R&D tax credit of £432,000 (2017: £308,000))	10	**(580)**	(861)
Profit for the year		**4,287**	3,018
Profit for the year attributable to equity holders of the parent		**4,287**	3,018
Earnings per share			
Earnings per share from continuing operations (basic)	12	**10.7**	7.7p
Earnings per share from continuing operations (diluted)	12	**10.5**	7.5p
Adjusted earnings per share from continuing operations (basic)	12	**14.7**	12.8p
Adjusted earnings per share from continuing operations (diluted)	12	**14.4**	12.5p

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 2018

	Group	
	2018 £000	2017 £000
Profit for the year	**4,287**	3,018
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(50)**	(28)
Fair value gain on interest rate swap	**66**	30
Deferred tax on interest rate swap	**(13)**	(43)
Other comprehensive income/(expense) for the year	**3**	(41)
Total comprehensive income for the year	**4,290**	2,977
Total comprehensive income for the year attributable to owners of the parent	**4,290**	2,977

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018

Group	Issued capital £000	Share premium £000	Treasury stock £000	Merger reserve £000	Translation reserve £000	Share based payment reserve £000	Retained earnings £000	Total – Share-holders funds £000
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 23)	–	–	–	–	–	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**
Balance at 1 January 2018	**421**	**8,230**	**(3,569)**	**10,343**	**310**	**2,663**	**19,341**	**37,739**
Purchase of own shares	–	–	(190)	–	–	–	–	**(190)**
Issue of shares out of treasury stock	–	–	995	–	–	–	(880)	**115**
Dividends paid	–	–	–	–	–	–	(1,760)	**(1,760)**
Share based payment charge (Note 23)	–	–	–	–	–	812	–	**812**
Deferred tax on share based payment transactions	–	–	–	–	–	–	(48)	**(48)**
Transactions with owners	**–**	**–**	**805**	**–**	**–**	**812**	**(2,688)**	**(1,071)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**4,287**	**4,287**
Other comprehensive income:								
Fair value gain on interest rate swap	–	–	–	–	–	–	66	**66**
Exchange differences on translating foreign operations	–	–	–	–	(50)	–	–	**(50)**
Deferred tax on interest rate swap	–	–	–	–	–	–	(13)	**(13)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(50)**	**–**	**4,340**	**4,290**
Balance at 31 December 2018	**421**	**8,230**	**(2,764)**	**10,343**	**260**	**3,475**	**20,993**	**40,958**

The accompanying Notes form an integral part of this Consolidated Statement of Changes in Shareholders Equity.

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018

Company	Issued capital £000	Share premium £000	Treasury stock £000	Merger reserve £000	Translation reserve £000	Share based payment reserve £000 (Restated)	Retained earnings £000	Total – Share-holders funds £000 (Restated)
Balance at 1 January 2017	**421**	**8,230**	**(3,608)**	**10,343**	**–**	**2,351**	**21,922**	**39,659**
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 23)	–	–	–	–	–	312	–	**312**
Deferred tax on share based payment transactions	–	–	–	–	–	–	(21)	**(21)**
Transactions with owners	**–**	**–**	**39**	**–**	**–**	**312**	**(1,698)**	**(1,347)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2,150**	**2,150**
Balance at 31 December 2017	**421**	**8,230**	**(3,569)**	**10,343**	**–**	**2,663**	**22,374**	**40,462**
Balance at 1 January 2018	**421**	**8,230**	**(3,569)**	**10,343**	**–**	**2,663**	**22,374**	**40,462**
Purchase of own shares	–	–	(190)	–	–	–	–	**(190)**
Issue of shares out of treasury stock	–	–	995	–	–	–	(880)	**115**
Dividends paid	–	–	–	–	–	–	(1,760)	**(1,760)**
Share based payment charge (Note 23)	–	–	–	–	–	812	–	**812**
Deferred tax on share based payment transactions	–	–	–	–	–	–	13	**13**
Transactions with owners	**–**	**–**	**805**	**–**	**–**	**812**	**(2,627)**	**(1,010)**
Profit and total comprehensive income for the year	–	–	–	–	–	–	7,425	**7,425**
Balance at 31 December 2018	**421**	**8,230**	**(2,764)**	**10,343**	**–**	**3,475**	**27,172**	**46,877**

The accompanying Notes form an integral part of this Company Statement of Changes in Shareholders' Equity.

Consolidated and Company Balance Sheet

At 31 December 2018

	Note	Company 2018 £000	Company 2017 £000 (Restated)	Group 2018 £000	Group 2017 £000 (Restated)
Assets					
Non-current assets					
Acquisition related intangible assets	14	**–**	–	**7,495**	9,499
Goodwill	14	**–**	–	**11,239**	11,239
Property, plant and equipment	15	**–**	–	**23,353**	23,787
Investments	16	**37,046**	36,271	**–**	50
Derivative financial assets	3	**–**	–	**293**	227
Deferred tax assets	11	**27**	62	**16**	104
		37,073	36,333	**42,396**	44,906
Current assets					
Trade and other receivables	17	**5,741**	1,842	**9,717**	9,381
Current tax asset		**–**	–	**245**	–
Cash and cash equivalents – Client registration funds	18	**–**	–	**1,487**	887
Cash and cash equivalents – Group cash	18	**7,465**	2,922	**21,520**	19,893
		13,206	4,764	**32,969**	30,161
Total assets		**50,279**	41,097	**75,365**	75,067
Liabilities					
Current liabilities					
Trade and other payables	19	**3,402**	116	**17,376**	18,208
Current tax liabilities		**–**	–	**374**	554
Provisions	20	**–**	–	**1,038**	825
Borrowings	24	**–**	–	**1,000**	1,250
		3,402	116	**19,788**	20,837
Non-current liabilities					
Provisions	20	**–**	–	**296**	466
Borrowings	24	**–**	–	**11,689**	12,676
Contingent consideration	21	**–**	519	**–**	519
Deferred tax liabilities	11	**–**	–	**2,634**	2,830
		–	519	**14,619**	16,491
Total liabilities		**3,402**	635	**34,407**	37,328
Net assets		**46,877**	40,462	**40,958**	37,739
Shareholders' equity					
Share capital	23	**421**	421	**421**	421
Share premium		**8,230**	8,230	**8,230**	8,230
Treasury stock		**(2,764)**	(3,569)	**(2,764)**	(3,569)
Merger reserve		**10,343**	10,343	**10,343**	10,343
Translation reserve		**–**	–	**260**	310
Share based payment reserve		**3,475**	2,663	**3,475**	2,663
Retained earnings		**27,172**	22,374	**20,993**	19,341
Total equity		**46,877**	40,462	**40,958**	37,739

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

Michael Lacey-Solymar Non-Executive Director
Martyn Ratcliffe Chairman
On 4 March 2019

Refer to Note 22 for an explanation of the restatement of the Consolidated and Company Balance Sheets at 31 December 2017.

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 2018

		Company		Group	
	Note	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Profit before income tax		**7,473**	2,117	**4,867**	3,879
Adjustments for:					
Amortisation on acquisition related intangible assets	14	**–**	–	**2,004**	1,410
Depreciation on property, plant and equipment	15	**–**	–	**760**	728
Net interest cost/(income)	7	**65**	(28)	**441**	493
Release of contingent consideration	21	**(519)**	–	**(519)**	–
Share based payment charge	8	**–**	–	**812**	312
Impairment of cost of investment	16(b)	**–**	–	**50**	–
Release of provision	20	**–**	–	**(503)**	–
Increase in provision	20	**–**	–	**760**	
(Increase)/decrease in receivables		**(3,897)**	10,340	**(354)**	1,406
Increase in payables representing client registration funds		**–**	–	**600**	887
(Decrease)/increase in payables excluding balances representing client registration funds		**3,321**	(88)	**(1,535)**	(469)
Cash generated from operations		**6,443**	12,341	**7,383**	8,646
Finance costs		**(65)**	–	**(555)**	(386)
UK corporation tax paid		**–**	–	**(1,025)**	(91)
Foreign corporation tax (paid)/received		**–**	–	**(159)**	19
Cash flows from operating activities		**6,378**	12,341	**5,644**	8,188
Interest received		**–**	34	**10**	3
Purchase of property, plant and equipment		**–**	–	**(444)**	(471)
Purchase of subsidiary undertakings, net of cash received		**–**	(13,192)	**–**	(10,435)
Cash flows (used in)/generated by investing activities		**–**	(13,158)	**(434)**	(10,903)
Issue of shares out of treasury		**115**	15	**115**	15
Repurchase of own shares		**(190)**	–	**(190)**	–
Dividends paid	13	**(1,760)**	(1,653)	**(1,760)**	(1,653)
Repayment of bank loans	24	**–**	–	**(1,250)**	(750)
Cash flows (used in)/generated by financing activities		**(1,835)**	(1,638)	**(3,085)**	(2,388)
Increase/(decrease) in cash and cash equivalents in the year		**4,543**	(2,455)	**2,125**	(5,103)
Cash and cash equivalents at the beginning of the year		**2,922**	5,377	**20,780**	25,996
Exchange gains/(loss) on cash		**–**	–	**102**	(113)
Cash and cash equivalents at the end of the year	18	**7,465**	2,922	**23,007**	20,780

Cash and cash equivalents is analysed as follows:

	Group	
	2018 £000	2017 £000
Cash and cash equivalents – Client registration funds (Note 18)	**1,487**	887
Cash and cash equivalents – Group cash	**21,520**	19,893
	23,007	20,780

The accompanying Notes form an integral part of this Consolidated and Company Statement of Cash Flows.

Notes to the Financial Statements

For the year ended 31 December 2018

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 2018, was 210.0 pence per share (31 December 2017: 205.5 pence per share).

These Consolidated Financial Statements have been approved for issue by the Board of Directors on 4 March 2019.

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. Acquisition integration costs include all costs incurred directly related to the restructuring, relocation and integration of acquired businesses. Adjustments for share based payment charges occur 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 investors/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 12. 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 19.4% (2017: 21.5%) 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	**2018 £000**	2017 £000
Cash and cash equivalents – Group cash	18	**21,520**	19,893
Borrowings	24	**(12,689)**	(13,926)
Net funds		**8,831**	5,967

(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	**2018**	2017
Net funds		**8,831**	5,967
Freehold land and buildings	15	**21,552**	21,719
Net funds plus freehold property		**30,383**	27,686
Number of shares in issue (excluding treasury shares) ('000 shares)	23	**40,040**	39,367
Net-funds-plus-freehold-property-per-share in issue (pence)		**75.9**	70.3

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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 2018, 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 £7,425,000 (2017: £2,150,000).

Going concern – the Directors have considered the current cash balance of £21.5m and assessed forecast future cash flows for the next 12 months 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 Changes in accounting policies
The Group has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Impact on Transition – the effect of initially applying these two standards with regards to recognition and measurement is an immaterial impact on the results of the Group and hence no restatement has been made. The basis of this conclusion for each of the accounting standard changes is as follows.

IFRS 15 Revenue from Contracts with Customers – IFRS 15 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 key principle that was considered on transition of this accounting standard was whether revenue is recognised at a point in time or over a period of time as the services are performed.

It was concluded that revenue is recognised under IFRS 15 as the time is worked at the fee rate specified within the contract; the majority of projects are performed on a time and materials basis under which

i. all work performed is fully transferable to the client at any point during the project and,

ii. the Company has the right to receive payment for its services performed up to any given point in time.

IFRS 9 Financial Instruments – IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

At the reporting date, the only complex financial instruments that the Group holds are interest rate swaps for which hedge accounting applies. There is no effect on these financial instruments on the transition to the new accounting standard with it continuing to be measured at Fair Value Through Comprehensive Income and hence no restatement is required.

The application of the IFRS 9 'expected credit loss' model does not have a material impact on the level of impairment of receivables.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)
The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities at 1 January 2018.

Financial Assets and Liabilities	Original Classification under IAS 39	New Classification under IFRS 9	Carrying amount under IAS 39 and IFRS 9 £000
Interest rate swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	227
Trade and other receivables	Loan and receivables	Financial asset measured at amortised cost	8,459
Cash and cash equivalents - client registration funds	Loan and receivables	Financial asset measured at amortised cost	887
Cash and cash equivalents	Loan and receivables	Financial asset measured at amortised cost	19,893
Secured bank loans	Other financial liabilities	Other financial liabilities	(13,926)
Trade payables	Other financial liabilities	Other financial liabilities	(1,518)

The updated accounting policies have been provided below and the disclosures have been provided in line with the requirements of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*.

The Group has applied IFRS 15 and IFRS 9 from 1 January 2018 and has elected to not restate comparative information. The Group has adopted the cumulative effect method at the point of initial application of these standards (i.e. 1 January 2018) and there is no material impact on brought forward retained earnings. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy as disclosed in the financial statements for the year ended 31 December 2017.

2.3 Standards issued but not yet effective
The standards and interpretations in issue but not effective for accounting periods commencing until 1 January 2019 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.

The adoption of IFRS 16 will result in the recognition of assets on the balance sheet which are currently leased under operating leases. The Group has performed a detailed impact assessment of this standard and estimates that a Right of Use Asset and a corresponding Lease Liability in respect of properties held under operating lease of approximately £2,765,000 would be recognised upon adoption. This calculation has been performed using the modified retrospective option which permits entities to not restate the comparatives and recognise the cumulative impact of initially applying IFRS16 as an adjustment to opening equity at the date of initial application.

The impact of this standard on IT equipment held under operating leases is considered immaterial due to the low volume and value of the equipment.

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 28.

Number	Title	Effective
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 2018

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective (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.

2.4 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.

2.5 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.

2.6 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.

During 2017, the group consolidated the OTM and Oakland Innovation CGU's to form the Advisory CGU (Note 14).

2.7 Research and development expenditure
Research and development expenditure is written off as incurred.

2.8 Property, plant and equipment
Land and buildings as shown in the Notes to the Financial Statements 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

2.8 Property, plant and equipment (continued)
Land is not depreciated. Depreciation on all other property, plant and equipment is calculated using the straight-line 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.

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

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 Financial instruments
(a) Classification – from 1 January 2018, the Group classifies its financial assets in the following measurement categories:

(i) those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

(ii) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement – at initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

2.14 Financial instruments (continued)

Debt instruments (continued)

(ii) Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

(iii) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value

(c) Impairment – the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12 month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

2.15 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 2018

2. Summary of significant accounting policies (continued)

2.16 Revenue recognition
The Core Business segment provides consultancy services to clients across the medical, food and beverage and commercial markets.

Revenue from providing services is recognised in the accounting period in which the services are rendered. The majority of projects are priced on a time and materials basis and the revenue for these projects is recognised based on the actual labour hours spent at the contractual fee rates.

Performance obligations are linked to the reports supplied to the client, where work is billed in an agreed fee rate context, so that clients are able to specifically review work performed.

For the few fixed-price project contracts, revenue is recognised based on the proportion of deliverables provided to the client with an adjustment if the project is forecast to overrun.

Subscription income for membership services provided over an annual contractual period is recognised in the income statement on a straight-line basis over the period of the contract.

The Non-Core Business segment includes all third-party revenue generated from a property owned by the Group and this is recognised in the related period on a straight-line basis over the lease term. Lease contractual notice periods are typically shorter than 12 months.

Revenue is measured and recognised using the contractual fee rates of the project. Estimates of revenues or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In the case of both time and materials and fixed-price contracts, the customer pays for the value of services provided based on an invoicing and payment schedule. If the services rendered by the Group at the reporting date exceed the payments received to date, a contract asset is recognised (within trade receivables if the sales invoice has been raised or amounts recoverable on contracts if the services rendered have not been invoiced). If the payments exceed the services rendered, a contract liability is recognised.

In the majority of cases, customers are invoiced on a monthly basis however this varies when appropriate to take into account credit limits, payment terms and operational efficiencies. Consideration is payable when invoiced based on contractual payment terms.

2.17 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.

2.18 Employee benefits
(a) Pension obligations – Group companies operate various pension schemes. The schemes in TSG Iberia, TSG Germany and TSG France are based on government schemes and funded through social security payments. The other 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

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

Sagentia Inc. and TSG Inc. provide 401(k) pension benefits to employees. The 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.

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 typically paid quarterly.

2.19 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.

2.20 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

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

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

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

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:

2018 **£000**	**US$**	**Euro**	**Other**	**Total**
Financial assets	7,184	1,289	38	8,511
Financial liabilities	(2,283)	(379)	(17)	(2,679)
Exposure	**4,901**	**910**	**21**	**5,832**

2017 £000	US$	Euro	Other	Total
Financial assets (restated US$)	5,781	2,302	222	8,305
Financial liabilities	(3,171)	(299)	(21)	(3,491)
Exposure	2,610	2,003	201	4,814

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. Financial risk management (continued)

3.1 Financial risk factors (continued)
(a) Foreign currency sensitivity (continued)
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 2018 (2017: 10.0%). A +/- 10.0% change is considered for the GBP/Euro exchange rate (2017: 10.0%).

If the GBP had strengthened against the US Dollar and Euro by 10.0% (2017: 10.0%) respectively then this would have had the following impact:

2018 **£000**	**US$**	**Euro**	**Other**	**Total**
Income statement	(194)	(84)	-	(278)
Equity	93	(169)	(27)	(103)

2017 £000	US$	Euro	Other	Total
Income statement	(202)	(147)	–	(349)
Equity	329	(220)	(21)	88

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

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

The actual currency rate movement against the US Dollar and Euro at year end compared to the previous year end was -5.8% (2017: 8.7%) and -1.0% (2017: -4.1%) 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	**2018** **£000**	2017 £000
Pound Sterling – bank loan	**12,750**	14,000
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 24. Terms and conditions of the interest rate swap are as disclosed in Note 24.

In February 2019, the Group increased the bank loan to £17.5 million. The equivalent fixed rate on the extended sum is 4.0%.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. Financial risk management (continued)

3.1 Financial risk factors (continued)
(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	
	2018 £000	2017 £000	**2018 £000**	2017 £000 (Restated)
Cash and cash equivalents – Group cash	**7,465**	2,922	**21,520**	19,893
Cash and cash equivalents – Client registration funds	**–**	–	**1,487**	887
Trade and other receivables	**5,726**	1,819	**8,864**	8,459
	13,191	4,741	**31,871**	29,239

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 17.

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 2018

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 2018, Science Group's financial liabilities have contractual maturities which are summarised below:

2018	**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**	**7,750**
Interest on bank borrowings	**217**	**212**	**1,373**	**621**
Trade payables	**1,110**	**–**	**–**	**–**
Accruals	**4,336**	**–**	**–**	**–**
	6,163	**712**	**5,373**	**8,371**

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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	
	2018 £000	2017 £000	**2018 £000**	2017 £000 (Restated)
Loans and receivables:				
– Trade receivables	**–**	–	**7,836**	7,591
– Other receivables	**5,726**	1,819	**1,028**	868
– Cash and cash equivalents – Client registration funds	**–**	–	**1,487**	887
– Cash and cash equivalents – Group cash	**7,465**	2,922	**21,520**	19,893
	13,191	4,741	**31,871**	29,239
Financial liabilities at amortised cost:				
– Non-current borrowings	**–**	–	**11,689**	12,676
– Current borrowings	**–**	–	**1,000**	1,250
– Trade payables	**50**	–	**1,110**	1,518
– Accruals	**105**	78	**4,336**	5,859
	155	78	**18,135**	21,303
Derivatives used for hedging:				
– Financial instruments asset	**–**	–	**293**	227
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 2018

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	
	2018 £000	2017 £000
Total shareholders' funds	**40,958**	37,739
Net funds (Note 1)	**8,831**	5,967
Freehold property at Harston Mill	**13,210**	13,294
Freehold property at Great Burgh	**8,342**	8,425

Shareholders' funds

In 2018 Sagentia Limited paid a dividend distribution of £6.0 million and Oakland Innovation Limited paid a dividend distribution of £1.2 million to Science Group plc. 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 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 4.6 pence per share at the forthcoming AGM (2017: 4.4 pence per share). The Board anticipates recommending a single dividend being paid each year.

Net funds

The net funds of the Group have increased by £2.8 million in 2018 (2017: decreased by £5.4 million) as set out in the Consolidated Statement of Cash Flows.

Details of the Group's borrowings are set out in Note 24 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 15.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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 associated services. The segmental analysis is reviewed to operating profit. Other resources are shared across the Group.

Year ended 31 December 2018	**Core Business £000**	**Non-Core Business £000**	**Total £000**
Services revenue	46,504	15	46,519
Third party property income	–	1,046	1,046
Other	1,105	–	1,105
Revenue	**47,609**	**1,061**	**48,670**
Adjusted operating profit	**7,587**	**144**	**7,731**
Amortisation and impairment of intangible assets	(2,004)	–	(2,004)
Impairment of other investments	(50)	–	(50)
Acquisition integration costs	(76)	–	(76)
Release of contingent consideration	519	–	519
Share based payment charge	(812)	–	(812)
Operating profit	**5,164**	**144**	**5,308**
Finance charges (net)			(441)
Profit before income tax			**4,867**
Income tax charge			(580)
Profit for the year			**4,287**

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**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. Segment information (continued)

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

	2018		2017	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000 (Restated)
United Kingdom	**8,948**	**42,262**	7,673	44,752
Other European countries	**18,197**	**33**	14,382	21
North America	**19,080**	**85**	17,105	29
Other	**2,445**	**–**	1,663	–
Total	**48,670**	**42,380**	40,823	44,802

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 2018, no single customer accounted for more than 10% of the Group's revenue in the Core Business Segment (2017: £4.1 million equivalent to 10% of the Group's revenue depended on a single European customer in the Core Business Segment). Operating profit for the Core Business Segment included a depreciation charge of £0.7 million (2017: £0.7 million) and the Non-Core Business Segment included a depreciation charge of £27,000 (2017: £32,000). Capital expenditure attributable to the Core Business Segment is £0.3 million (2017: £0.6 million). Capital expenditure attributable to the Non-Core Business Segment is £nil (2017: £nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5. Revenue

5.1 Revenue Streams

Science Group generates revenue primarily from Core Business and Non-Core Business segments. '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 associated services.

Non-Core Business revenue is generated in the UK, denominated in GBP and is primarily rental income.

	2018 £000	2017 £000
Core Business	**47,609**	39,704
Non-core Business	**1,061**	1,119
Revenue	**48,670**	40,823

5.2 Disaggregation of Revenue

In the following tables, Core Business revenue is disaggregated by geographic market and by the currency in which the contract is denominated.

For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based.

Primary geographic markets	2018 £000	2017 £000
United Kingdom	**7,887**	6,554
Other European Countries	**18,197**	14,382
North America	**19,080**	17,105
Other	**2,445**	1,663
	47,609	39,704

Currency	2018 £000	2017 £000
US Dollar	**16,599**	13,975
Euro	**5,674**	4,086
Sterling	**25,188**	21,622
Other	**148**	21
	47,609	39,704

5.3 Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2018 £000	2017 £000
Receivables that are included in 'Trade and other receivables'	**7,836**	7,591
Contract assets that are included in 'Trade and other receivables'	**1,017**	861
Contract liabilities which are included in 'Trade and other payables'	**(10,752)**	(10,006)

The contract assets primarily relate to the Group's rights to consideration for work performed but not billed at the reporting date on Core Business revenue streams. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers. £1,487,000 (2017: £887,000) relates to pass through fees which represent advance payments for registration fees to be paid to regulatory bodies. The remainder represents revenue to be recognised over time as the work is performed.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5. Revenue (continued)

5.3 Contract balances (continued)
Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract Assets £000	Contract Liabilities £000
Revenue recognised that was included in the contract liability at the beginning of the period	–	**10,006**
Increase due to cash received, excluding amounts recognised as revenue in the period	–	**(10,752)**
Transfers from contract assets recognised at the beginning of the period to receivables	**(861)**	–
Increases as a result of changes in the measure of progress	**1,017**	–
	156	**(746)**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

6. Operating expenses

Expenses by nature		Group	
Year ended 31 December	Note	**2018 £000**	2017 £000
Employee remuneration and benefit expenses	8	**28,320**	22,101
Operating third party expenses		**2,367**	2,370
Occupancy costs		**3,811**	3,410
Equipment and consumables		**1,744**	1,513
Selling and marketing expenses		**2,360**	1,908
Depreciation of property, plant and equipment	15	**760**	728
Release of contingent consideration		**(519)**	–
Foreign currency gains		**(87)**	64
Amortisation and impairment of intangible assets		**2,004**	1,410
Other		**2,602**	2,947
		43,362	36,451
Less expenses below adjusted operating profit		**(2,423)**	(2,534)
		40,939	33,917

Included above	Group	
	2018 £000	2017 £000
Research and development *	**7,757**	7,408
Operating lease rentals	**1,090**	626
Auditors' remuneration		
Services to the Company and its subsidiaries:		
Fees payable to the Company's auditors for the audit of the financial statements	**14**	10
Audit of the financial statements of the Group and Company subsidiaries pursuant to legislation	**151**	118
Fees payable to the Company's auditor for other non-audit services:		
Tax advisory services	**11**	11

*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 2018

7. Finance income and finance costs

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

	Group	
Year ended 31 December	**2018 £000**	2017 £000
Finance income		
Bank interest receivable and similar income	**10**	3
	10	3
Finance costs		
Bank borrowings	**(438)**	(490)
Unwinding of discount	**(13)**	(6)
	(451)	(496)

8. Employee benefit expenses

Employment costs are shown below:

	Group	
Year ended 31 December	**2018 £000**	2017 £000
Wages and salaries (including bonuses and healthcare costs)	**22,947**	18,168
Social security costs	**3,231**	2,750
Sales commission	**94**	81
Pension costs	**1,236**	790
Share based payments (Note 23)	**812**	312
	28,320	22,101

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

	Group	
Year ended 31 December	**2018 Number**	2017 Number
Technology consultants	**289**	243
Marketing, support, administration and other staff	**92**	77
	381	320

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9. Directors' remuneration, interests and transactions

Directors' emoluments and benefits include:

Year ended 31 December 2018 **Name of Director**	**Salary/ fee** **£000**	**Bonus** **£000**	**Pension contribution** **£000**	**Taxable Benefits** **£000**	**Total** **£000**
Courtley	**40**	**–**	**–**	**–**	**40**
Archer	**170**	**43**	**12**	**–**	**225**
Lacey-Solymar	**40**	**–**	**–**	**–**	**40**
Ratcliffe	**385**	**–**	**–**	**–**	**385**
Aggregate emoluments	**635**	**43**	**12**	**–**	**690**

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

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 £37,000 was recognised in the income statement relating to share options held by Directors (2017: £30,000).

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 £89,176 (2017: £98,409).

Directors' interests in the shares of Science Group at 31 December 2018 and 31 December 2017, and any changes subsequent to 31 December 2018, are as follows:

Science Group plc **Ordinary shares of £0.01**	**Options**				**Shares**	
Year ended 31 December	**2018**	2017	**2018**	2017	**2018**	2017
	Average exercise price (pence)		**Number**	Number	**Number**	Number
Archer	**1.0**	1.0	**175,000**	200,000	**60,000**	–
Ratcliffe	**–**	–	**–**	–	**13,412,906**	13,412,906
Courtley	**–**	–	**–**	–	**375,000**	375,000
			175,000	200,000	**13,847,906**	13,787,906

See Note 23 for further details on option plans.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10. Income tax

The tax charge comprises:

Year ended 31 December	Note	2018 £000	2017 £000
Current taxation		**(1,377)**	(1,281)
Current taxation – adjustment in respect of prior years (including £106,000 2017 R&D tax credit)		**196**	(34)
Deferred taxation	11	**218**	196
Deferred taxation – adjustment in respect of prior years		**(49)**	(50)
R&D tax credit		**432**	308
		(580)	(861)

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 19.4% (2017: 21.5%) as follows:

	2018 £000	2017 £000
Profit before tax	**4,867**	3,879
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**(946)**	(836)
Expenses not deductible for tax purposes	**(179)**	(45)
Adjustment in respect of prior years – current tax	**196**	(34)
Adjustment in respect of prior years – deferred tax	**(49)**	(50)
Movement in deferred tax due to change in tax rate	**(239)**	–
Share scheme movements	**293**	8
Current year losses for which no deferred tax asset was recognised	**(73)**	(126)
Mandatory earnings and profits one-time tax	**(78)**	(120)
Prior year losses used in the current year which were not previously recognised	**63**	34
R&D tax credit	**432**	308
Tax (charge)	**(580)**	(861)

In 2017, the United States Federal Government released the Tax Cuts and Jobs Act. The impact of this bill resulted in the recognition of a corporation tax liability of £120,000 as at 31 December 2017 based on the estimated undistributed profits of all foreign subsidiaries of Technology Sciences Group Inc. During the current financial year, the final liability in respect of these earnings and profits one-time tax was calculated and an additional charge of £78,000 was recognised in the current year.

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 £0.4 million (2017: £0.3 million). The Group performed a reasonable estimate of all amounts involved to determine the R&D tax credits to be recognised in the period to which it relates.

The final R&D tax credit for the year ended 31 December 2017 was calculated to be £414,000 and the difference of £106,000 was recognised in the current year ended 31 December 2018 and disclosed above within 'current taxation – adjustment in respect of prior years'.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11. 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 £000	Tax losses £000	Share based payment £000	Acquisition related intangible assets £000	Other temporary differences £000 (Restated)	Total £000 (Restated)
At 1 January 2017	(1,784)	287	295	(936)	10	(2,128)
Charged to the income statement	50	(183)	97	243	(11)	196
Deferred taxation relating to acquisitions (restated)	–	–	–	(1,308)	522	(786)
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)**	**428**	**(2,726)**
Charged to the income statement	(138)	(39)	(28)	456	(33)	218
Charge to the income statement (prior year adjustment)	–	(49)	–	–	–	(49)
Charged to equity	–	–	(48)	–	(13)	(61)
At 31 December 2018	**(1,872)**	**16**	**401**	**(1,545)**	**382**	**(2,618)**

	Group	
	2018 £000	2017 £000 (Restated)
Deferred tax assets	**16**	104
Deferred tax liabilities	**(2,634)**	(2,830)
Net deferred tax liability	**(2,618)**	(2,726)

Deferred tax relating to acquisitions in 2017 has been restated by £296,000 due to a correction to the deferred tax recognised on the acquisition balance sheet of TSG Americas.

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 £10.8 million (2017: £11.4 million) and of these losses, £10.4 million are not recognised as a deferred tax asset and they do not expire.

Company	Share based payment £000	Total £000
At 1 January 2017	44	44
Charged to the income statement	18	18
Charged to equity	–	–
At 31 December 2017	**62**	**62**
Charged to the income statement	(48)	(48)
Charged to equity	13	13
At 31 December 2018	**27**	**27**

The Company has available tax losses of approximately £2.3 million (2017: £2.3 million) and these losses do not expire.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11. Deferred tax (continued)

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 the substantively enacted corporation tax rates in the respective jurisdictions.

12. Earnings per share

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

	2018			**2017**		
	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	**4,287**	**39,889,693**	**10.7**	3,018	39,316,141	7.7
Effect of dilutive potential ordinary shares: share options	**–**	**1,021,609**	**(0.2)**	–	957,584	(0.2)
Diluted earnings per ordinary share	**4,287**	**40,911,302**	**10.5**	3,018	40,273,725	7.5

Only the share options granted, as disclosed in Note 23, are dilutive.

The calculation of adjusted earnings per share is as follows:

	2018			2017		
	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	**5,876**	**39,889,693**	**14.7**	5,032	39,316,141	12.8
Effect of dilutive potential ordinary shares: share options	**–**	**1,021,609**	**(0.3)**	–	957,584	(0.3)
Diluted earnings per ordinary share	**5,876**	**40,911,302**	**14.4**	5,032	40,273,725	12.5

*Calculation of adjusted profit after tax:

Group	**2018 £000**	2017 £000
Adjusted operating profit	**7,731**	6,906
Finance income	**10**	3
Finance costs	**(451)**	(496)
Adjusted profit before tax	**7,290**	6,413
Tax charge at the blended corporation tax rate across the various jurisdictions 19.4% (2017: 21.5%)	**(1,414)**	(1,381)
Adjusted profit after tax	**5,876**	5,032

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. Dividends

The proposed final dividend for 2017 of 4.4 pence per share was approved by Shareholders and the Board on 22 May 2018. An amount of £1.76 million was recognised as a distribution to equity holders in the year ended 31 December 2018.

The Board has proposed a final dividend for 2018 of 4.6 pence per share. The dividend is subject to approval by shareholders at the next Annual General Meeting and the expected cost of £1.84 million has not been included as a liability as at 31 December 2018.

14. Intangible assets

Group	Customer contracts and relationships £000	Goodwill £000 (Restated)	Total £000 (Restated)
Cost			
At 1 January 2017	6,894	6,258	13,152
Acquisitions through business combinations (restated)	5,726	7,206	12,932
At 31 December 2017 and 31 December 2018	**12,620**	**13,464**	**26,084**
Accumulated amortisation			
At 1 January 2017	(1,704)	–	(1,704)
Amortisation charged in year	(1,410)	–	(1,410)
At 31 December 2017	(3,114)	–	(3,114)
Amortisation charged in year	(2,004)	–	(2,004)
At 31 December 2018	**(5,118)**	**–**	**(5,118)**
Accumulated impairment			
At 1 January 2017	(7)	(2,225)	(2,232)
Impairment losses for the year	–	–	–
At 31 December 2017 and 31 December 2018	**(7)**	**(2,225)**	**(2,232)**
Carrying amount			
At 31 December 2017	9,499	11,239	20,738
At 31 December 2018	**7,495**	**11,239**	**18,734**

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	2018		2017	
	Pre-tax discount rate	**£000**	Pre-tax discount rate	£000 (Restated)
Advisory	**11.2%**	**3,383**	11.2%	3,383
Leatherhead Research	**11.2%**	**650**	11.2%	650
TSG – Americas	**11.0%**	**2,660**	11.0%	2,870
TSG – Europe	**11.0%**	**4,546**	11.0%	4,336
		11,239		11,239

In the year ended 31 December 2018, a reallocation of goodwill has been performed with the goodwill allocated to TSG Europe increasing by £210,000 and the goodwill allocated to TSG America decreasing by the same amount as a result of re-measuring the provision recognised at the date of acquisition of TSG (Note 20).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

14. Intangible assets (continued)

It was identified that the net assets acquired in the acquisition of Technology Sciences Group, during 2017, were understated due to an overstatement of the deferred tax liability relating to TSG Americas. An adjustment as at 31 December 2017 has been recognised to reduce goodwill and reduce deferred tax liability by £296,000. This adjustment has not affected Group net assets or profit or loss. The adjustment did not have any effect on the parent company's accounts.

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	**2018**	2017
Rate of growth in revenue (average of next 5 years)	**4.0%**	5.0%
Rate of increase in operating costs (average of next 5 years)	**4.1%**	5.0%
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 Advisory being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

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	**2018**	2017
Rate of growth in revenue (average of next 5 years)	**2.7%**	3.2%
Increase in costs (due to inflation) (average of next 5 years)	**2.8%**	3.1%
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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

14. Intangible assets (continued)

Impairment testing for the Leatherhead Research CGU (continued)
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	2018	2017
Rate of growth in revenue (average of next 5 years)	**6.2%**	4.6%
Rate of increase in operating costs (average of next 5 years)	**6.2%**	4.2%
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 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	2018	2017
Rate of growth in revenue (average of next 5 years)	**5.0%**	4.6%
Rate of increase in operating costs (average of next 5 years)	**4.9%**	4.5%
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 TSG Europe 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 2018

15. Property, plant and equipment

Group Cost	Freehold land and buildings £000	Furniture and fittings £000	Equipment £000	Total £000
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 1 January 2018	25,200	3,162	1,447	29,809
Exchange differences on cost	–	2	4	6
Reclassification	–	(14)	14	–
Additions	–	90	230	320
At 31 December 2018	**25,200**	**3,240**	**1,695**	**30,135**
Accumulated depreciation				
At 1 January 2017	3,314	1,258	722	5,294
Depreciation charge	167	327	234	728
Exchange differences on depreciation	–	–	–	–
Disposals	–	–	–	–
At 1 January 2018	3,481	1,585	956	6,022
Reclassification	–	(4)	4	–
Depreciation charge	167	336	257	760
Exchange differences on depreciation	–	(4)	4	–
At 31 December 2018	**3,648**	**1,913**	**1,221**	**6,782**
Carrying amount				
At 31 December 2017	21,719	1,577	491	23,787
At 31 December 2018	**21,552**	**1,327**	**474**	**23,353**

The Epsom property is held at cost less accumulated depreciation. Included within land and buildings for the Group is freehold land to the value of £500,000 (2017: £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 £8.1 million during March 2018 by BNP Paribas Real Estate, subject to the assumption of full vacant possession.

The Harston property is held at cost less accumulated depreciation. Included within land and buildings for the Group is freehold land to the value of £1,360,000 (2017: £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 March 2018 by BNP Paribas Real Estate. Under the assumptions used, including tenant covenant strength and market rents, the indicative valuation range for the building was between £16.7 million based on occupational tenancies where the head lease is merged into the freehold interest, and £22.5 million under a sale and leaseback scenario.

The Epsom and Harston buildings are depreciated using the straight line method to allocate their cost less their residual values over their estimated useful lives of 25 years. The residual values of the properties are based on estimates of the amounts the Group would receive currently for the properties if they were already of an age and in the condition expected at the end of their useful lives. The residual values are reviewed annually to ensure that they do not exceed the estimated market values of the properties.

The Harston property generated third party rental and services income of £1,046,000 (2017: £1,080,000). Of this income, £659,000 (2017: £677,000) was rental income and £387,000 (2017: £403,000) was services income. Services income includes, but is not limited to, utilities, cleaning and general maintenance.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

15. Property, plant and equipment (continued)

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 2018 was 29,400 sq. ft. (2017: 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. (2017: 45,700 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 1,900 sq. ft. (2017: nil 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 £21,552,000 (2017: £21,719,000) is significantly different to its fair value.

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

16. Investments

a) Investments in subsidiaries
Science Group held investments in the following subsidiaries at 31 December 2018.

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 Ltd*	(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 Ltd*	(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.	(7)	Canada	Consultancy	Ordinary	100
TSGE Forum Limited	(1)	England	Consultancy	Ordinary	100
TSGE Iberia SL	(5)	Spain	Consultancy	Ordinary	100
TSGE d.o.o	(8)	Slovenia	Consultancy	Ordinary	100
TSGE Deutschland GmbH	(6)	Germany	Consultancy	Ordinary	100
Technology Sciences Group Inc.*	(2)	USA	Consultancy	Ordinary	100
Technology Science Group France *	(4)	France	Consultancy	Ordinary	100

* Direct subsidiaries of Science Group plc as at 31 December 2018

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

(1) Harston Mill, Royston Road, Harston, Cambridge, England, CB22 7GG
(2) 919 North Market Street, Suite 950, Wilmington, Delaware, 19801
(3) 815 Brazos St. STE 500 Austin, Texas, 78701
(4) 1-2 place des saisons, La Défense Tour First, 92400 Courbevoie, Paris
(5) Avenida De Galicia, 22-1, Isquierda, Dr Oviedo, 33005, Spain
(6) Richthofenstraße 29, 31137 Hildesheim, Germany
(7) 50 O'Connor, Suite 300, Ottawa ON, K1P 6L2, Canada
(8) Ljubljanska cesta 110, 1230 Domžale, Slovenia

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 2018

16. Investments (continued)

b) Other investments

Group	Total £000
Cost	
At 1 January 2017, 31 December 2017 and 31 December 2018	**100**
Impairment	
At 1 January 2017 and 31 December 2017	50
Impairment loss	50
At 31 December 2018	**100**
Carrying amount	
At 31 December 2017	50
At 31 December 2018	**–**

At 31 December 2018, a subsidiary of Science Group plc holds 30% of the ordinary share capital of Creactive (ID) Design Limited, a Cambridge-based industrial design consultancy, at a net book value of £nil. The annual impairment test on investments resulted in an impairment of £50,000 being recognised on this investment.

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

	Total £000
Cost	
At 1 January 2017 (restated)	24,452
Acquisitions through business combinations	13,722
Capital contribution to subsidiaries	282
At 1 January 2018 (restated)	38,456
Capital contributions to subsidiaries	775
At 31 December 2018	**39,231**
Impairment	
At 1 January 2017 and 1 January 2018	2,185
Impairment loss	–
At 31 December 2018	**2,185**
Carrying amount	
At 31 December 2017	36,271
At 31 December 2018	**37,046**

The cost of investment at 1 January 2017 has been increased by £2,284,000 through a restatement; refer to Note 22(b) for an explanation.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. Trade and other receivables

	Company		Group	
	2018 £000	2017 £000	**2018 £000**	2017 £000 (Restated)
Current assets:				
Trade receivables	**–**	–	**7,980**	7,953
Provision for impairment	**–**	–	**(144)**	(362)
Trade receivables – net	**–**	–	**7,836**	7,591
Amounts recoverable on contracts	**–**	–	**1,017**	861
Other receivables	**–**	–	**11**	7
Amounts owed by Group undertakings	**5,726**	1,819	**–**	–
VAT	**13**	9	**6**	33
Prepayments	**2**	14	**847**	889
	5,741	1,842	**9,717**	9,381

All amounts disclosed above are receivable within 90 days.

The following table provides information about the exposure to credit risk and ECLs for trade receivables at 31 December 2018.

Group	Gross Carrying Amount £000	Provision for Impairment £000	Credit-Impaired
Current (not past due)	5,865	–	No
1-30 days past due	1,815	–	No
31-60 days past due	114	–	No
61-90 days past due	49	(7)	Yes
More than 90 days past due	137	(137)	Yes
	7,980	(144)	

The following table provides information about the exposure to credit risk and ECLs for amounts recoverable on contracts.

Group	Gross Carrying Amount £000	Provision for Impairment £000	Credit-Impaired
Current (not past due)	1,854	(837)	No

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 £144,000 (2017: £362,000) has been provided at 31 December 2018. In addition, some of the unimpaired trade receivables are past due as at the reporting date.

The initial application of IFRS 9 had no effect on the provisions for impairment at 1 January 2018.

	Group	
	2018 £000	2017 £000
Provision brought forward	**362**	97
Provision for bad debts of acquired companies	**–**	363
Debts written off	**(171)**	(65)
Provision released	**(90)**	(27)
Provision made	**45**	3
Movement due to foreign exchange fluctuations	**(2)**	(9)
Provision carried forward	**144**	362

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

18. Cash and cash equivalents

	Company		Group	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Short term bank deposits – Group cash	**37**	37	**37**	37
Cash at bank and in hand – Group cash	**7,428**	2,885	**21,483**	19,856
Cash and cash equivalents – Group cash	**7,465**	2,922	**21,520**	19,893
Cash and cash equivalents – Client registration funds	**–**	–	**1,487**	887
	7,465	2,922	**23,007**	20,780

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.

19. Trade and other payables

	Company		Group	
	2018 £000	2017 £000	**2018 £000**	2017 £000 (Restated)
Current liabilities				
Contract liabilities	**–**	–	**10,752**	10,006
Trade payables	**50**	–	**1,110**	1,518
Other taxation and social security	**35**	83	**786**	825
Amounts owed to Group undertakings	**3,212**	–	**–**	–
VAT	**–**	–	**392**	–
Accruals	**105**	33	**4,336**	5,859
	3,402	116	**17,376**	18,208

20. Provisions

Group	**Onerous lease £000**	**Dilapidations £000**	**Restructuring £000**	**Legal £000**	**Total £000**
At 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
Increase in provision	–	170	199	391	760
Utilisation of provision	(190)	–	(57)	–	(247)
Release of provision	(95)	(108)	–	(300)	(503)
Loss/(gain) on foreign exchange fluctuations	15	1	–	17	33
At 31 December 2018	**225**	**262**	**142**	**705**	**1,334**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

20. Provisions (continued)

	Group	
	2018 £000	2017 £000
Current liabilities	**1,038**	825
Non-current liabilities	**296**	466
	1,334	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 2018 is 1 year (2017: 2 years).

The restructuring provision relates to the costs associated with the closure of the Central/Eastern Europe offices and is anticipated to be utilised during the next two years.

Legal 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 the Group's 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.

The provision recognised at the date of acquisition of TSG has been re-measured based on new information obtained about facts and circumstances subsequent to the acquisition date that existed as of the acquisition date. The provision made is management's best estimate of the Group's liability based on past experience, commercial judgement and legal advice. The re-measurement has not resulted in a material change to the total provision and hence there has been no restatement of the acquisition accounting however a reallocation of goodwill has been performed with the goodwill allocated to TSG Europe increasing by £210,000 and the goodwill allocated to TSG America decreasing by £210,000.

21. Contingent consideration

A contingent consideration of £0.5 million was recognised on acquisition of TSG in September 2017. During the year ended 31 December 2018, certain agreed conditions on the vendor ceased to be met and the contingent consideration was no longer payable. The contingent consideration was released to the Consolidated Income Statement during the period.

22. Restatements

(a) Trade and other receivables and Trade and other payables
It was identified that at 31 December 2017, a balance of £1.2 million was incorrectly disclosed gross within Amounts recoverable on contracts and Payments received on account (disclosed within Trade and other receivables and Trade and other payables respectively) whereas there was a right of offset and hence should have been disclosed on a net basis. An adjustment as at 31 December 2017 has been recognised to reduce both these balances by £1.2 million. This adjustment has not affected Group net assets or profit or loss. The adjustment did not have any effect on the parent company's accounts.

(b) Company investments and share based payment reserve
It was identified that the company's investments at 1 January 2017 were understated by £2,284,000 because capital contributions from the Company to its subsidiaries in relation to share based payment charges for employees of the subsidiaries had been offset from the Company's share based payment reserve rather than added to the cost of investments. An adjustment has been made to the Company balance sheet to increase cost of investments by £2,284,000 and increase the share based payment reserve by £2,284,000.

There has been a further adjustment during 2017 to increase the cost of investment by £282,000 and increase the share based payment reserve by £282,000 representing the capital contribution from the company to its subsidiaries during 2017.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

22. Restatements (continued)

The restated company balance sheets for the latest three years are shown below.

	2018 £000	2017 £000	2016 £000
Non-current assets			
Investments	**37,046**	36,271	22,267
Deferred income tax assets	**27**	62	44
	37,073	36,333	22,311
Current assets	**9,994**	4,764	17,561
Total assets	**47,067**	41,097	39,872
Total Liabilities	**190**	635	213
Net Assets	**46,877**	40,462	39,659
Share capital	**421**	421	421
Share premium	**8,230**	8,230	8,230
Treasury stock	**(2,764)**	(3,569)	(3,608)
Merger reserve	**10,343**	10,343	10,343
Share based payment reserve	**3,475**	2,663	2,351
Retained earnings	**27,172**	22,374	21,922
Total equity	**46,877**	40,462	39,659

23. Called-up share capital

	2018 £000	2017 £000
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**421**	421
	Number	Number
Allotted, called-up and fully paid		
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 2018 was 42,062,035 shares (2017: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 40,040,227 (2017: 39,367,128). A reconciliation of treasury shares held by the Company is as follows:

	Company	
Reconciliation of treasury shares	**2018 Number**	2017 Number
At beginning of year	**2,694,907**	2,733,241
Purchase of own shares	**89,800**	–
Settlement of share options	**(762,899)**	(38,334)
At end of year	**2,021,808**	2,694,907

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

23. Called-up share capital (continued)

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	**2018 £000**	2017 £000
Equity settled share based payment charge	**812**	312

Reconciliation of outstanding options	**2018**		2017	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
At beginning of year	**1,877,732**	**7.0**	1,730,233	9.3
Granted during the year – PSP	**1,100,000**	**1.0**	295,000	1.0
Granted during the year – EEI	**1,200,000**	**1.0**	–	–
Exercised during the year	**(762,899)**	**15.1**	(38,334)	82.9
Lapsed during the year	**(220,833)**	**1.0**	(109,167)	1.0
At end of year	**3,194,000**	**1.7**	1,877,732	7.0

During the year ended 31 December 2018, share options were issued under both the Performance Share Plan ('PSP') and the Enhanced Executive Incentive scheme ('EEI') which is an addendum to the PSP.

The options outstanding at 31 December 2018 had a weighted average contractual life of 8.9 years (2017: 7.4 years).

Included within the total outstanding options at 31 December 2018 are 294,000 options which are exercisable (2017: 793,732). The weighted average exercise price of exercisable options at the end of the year was 1.7 pence (2017: 7.0 pence).

Options exercised during the year had a weighted average share price at the date of exercise of 15 pence (2017: 83 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 under the PSP in 2018 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 0.94%, 0.82% and 0.81% and a dividend yield factor of 1.8%, 1.9% and 1.83% has been used for the options issued in May, June and September respectively. The share price on the date the options were granted was 238.0 pence, 232.0 pence and 239.0 pence in May, June and September 2018 respectively. The other principal assumptions used in the valuation are set out in the table below. The underlying expected volatility was determined by reference to historical data of the Company's shares over the vesting period.

The fair values of the options granted under the EEI in 2018 were determined using the Monte Carlo Option Valuation model that takes into account factors specific to the share incentive plan. In May 2018, 1.2 million share options were granted under the EEI with a condition of achieving share price hurdles with a vesting period of 5 years. These performance conditions which are market conditions have been incorporated into the measurement by means of actuarial modelling. A risk free rate of 0.91% and a dividend yield factor of 1.7% has been used for EEI options. The share price on the date the options were granted was 250.0 pence. The underlying expected volatility was determined by reference to historical data of the Company's shares over the vesting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

23. Called-up share capital (continued)

At 31 December 2018, options granted to subscribe for ordinary shares of the Company are as follows:

	Option exercise period		Number of shares under option						
Date of grant	From	To	Approved/ Unapproved	Performance Share Plan	Enhanced Executive Incentive Addendum	Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
Nov 2012	Nov 2015	Nov 2022	25,000	–	–	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	–	6,666	–	1.0	80.8	10	25%
Sep 2014	Sep 2017	Sep 2024	–	8,334	–	1.0	74.8	10	18%
Apr 2015	Apr 2018	Apr 2025	–	4,000	–	1.0	86.7	10	16%
Sep 2015	Sep 2018	Sep 2025	–	250,000	–	1.0	77.0	10	16%
Aug 2016	Aug 2019	Aug 2026	–	270,000	–	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	–	250,000	–	1.0	207.1	10	24%
May 2018	May2021	May 2028	–	450,000	–	1.0	224.4	10	25%
May 2018	May2023	May 2028	–	–	1,200,000	1.0	121.0	10	25%
Jun 2018	Jun 2021	Jun 2028	–	100,000	–	1.0	218.4	10	25%
Sep 2018	Sep 2021	Sep 2028	–	530,000	–	1.0	225.3	10	23%
			25,000	**1,969,000**	**1,200,000**				

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

There are 20,058 approved options and 4,942 unapproved options at 31 December 2018.

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

	Option exercise period		Number of shares under option						
Date of grant	From (a)	To	Approved	Unapproved	Performance Share Plan	Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
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 2018

24. Borrowings

Group	2018 £000	2017 £000
Non-current		
Bank borrowings	**11,689**	12,676
	11,689	12,676
Current		
Bank borrowings	**1,000**	1,250
	1,000	1,250
Total borrowings	**12,689**	13,926

Group	2018 £000	2017 £000
Opening balance (non-current portion)	**12,676**	13,664
Opening balance (current portion)	**1,250**	1,000
Opening balance	**13,926**	14,664
Repayments in the year	**(1,250)**	(750)
Amortisation of arrangement fee in the year	**13**	12
Total borrowings	**12,689**	13,926

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 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.

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

Group	2018 £000	2017 £000
Within one year	**1,000**	1,250
Between 1 and 2 years	**1,000**	1,000
Between 2 and 5 years	**3,000**	3,000
Over 5 years	**7,750**	8,750
	12,750	14,000

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 IFRS 9, *Financial Instruments*, and the gain on change in fair value of the interest rate swaps entered into in 2018 of £66,000 (2017: £30,000) was recognised directly within equity.

The fair value of the swap at 31 December 2018 was an asset of £293,000 (2017: £227,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

25. Commitments

a) Operating lease commitments
The minimum annual rentals under non-cancellable operating leases are as follows:

Group	2018 £000	2017 £000
Plant and equipment lease commitment		
– Within 1 year	**74**	111
– In the second and fifth years inclusive	**64**	179
	138	290
Property lease rental		
– Within 1 year	**814**	634
– In the second and fifth years inclusive	**2,217**	2,230
	3,031	2,864
Total operating lease commitments	**3,169**	3,154

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 2018 the Group and the Company had other financial commitments of £nil (2017: £nil).

26. Contingent liabilities

At 31 December 2018, there were £nil contingent liabilities (2017: £nil).

27. 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	2018 Loans	2018 Sale of goods and services	2017 Loans	2017 Sale of goods and services
Sagentia Limited	**5,612**	**166**	2,928	177
OTM Consulting Limited	**–**	**–**	–	34
Quadro Design Limited	**–**	**–**	–	–
Sagentia Inc.	**–**	**–**	–	–
Manage5Nines Limited	**–**	**–**	–	–
Sagentia Technology Advisory Limited	**10**	**–**	10	–
Oakland Innovation Limited	**–**	**64**	–	94
Leatherhead Research Limited	**–**	**94**	–	88
Technology Sciences Group Limited	**(52)**	**–**	–	–
Technology Sciences Group Consulting Limited	**(2,961)**	**77**	(1,153)	40
TSGE Forum	**(11)**	**–**	–	–
TSG Iberia	**(1)**	**–**	–	–
TSG Inc.	**104**	**45**	–	–
TSG Canada	**(187)**	**–**	–	–
	2,514	**446**	1,785	433

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

27. Related party transactions (continued)

During the year, the Group entered into transactions with Creactive (ID) Design Limited ('Creactive'). Creactive has provided consultancy services to Sagentia Limited (a subsidiary of Science Group plc) and a cost of £120,000 was charged to Sagentia Limited (2017: £137,000). An accrual of £nil was outstanding at year end (2017: £13,000). Creactive has a licensing agreement in place with Sagentia Limited to occupy office space. During the year ended 31 December 2018, £17,700 was charged to Creactive in relation to this agreement (2017: £19,900). Sagentia Limited holds 30% of the ordinary share capital of Creactive (ID) Design Limited.

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 2018, £11,700 (2017: £6,700) 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	**2018** **£000**	2017 £000
Short-term employee benefits	**1,754**	1,707
Pension costs	**49**	44
Share based payment transactions	**237**	114
	2,040	1,865

28. 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.

Property residual values
Residual values have been estimated for the Epsom and Harston properties based on estimates of the amounts the Group would receive currently for the properties if they were already of an age and in the condition expected at the end of their useful lives.

(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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

28. Critical accounting estimates and judgements (continued)

(b) Significant accounting judgement (continued)
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.

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.

29. Post balance sheet events

The Group has increased the 10 year fixed-term loan from £12.75 million to £17.5 million on otherwise similar terms. The interest cost on the additional £4.75 million has been fixed by entering into an interest rate swap at an effective interest rate of 4.0% comprising a margin over 3 month LIBOR, the cost of the additional loan arrangement fee and the cost of the swap instrument.

There are no other post balance sheet events to disclose.

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