science group

19 May 2016

Science Group plc
(the "Company")

Trading update

Science Group plc provides the following update ahead of the Company's Annual General Meeting this morning.

Overall the Group performance in the first 4 months of the year is in line with the Board's expectations. At 30 April 2016, the Group had gross cash of £18.4 million and net funds of £10.9 million.

As a science-based services business with limited forward visibility, the Group has seen the benefits from the increase in diversification of client end-markets derived from the acquisition programme. In Q1, the Oil & Gas market continued to be challenging and the Medical business continued to suffer from the lack of new projects to replace those completed in 2015. However, following a change in Group management structure and US sales leadership, a number of significant projects have been won in the Medical sector in recent months which should improve performance in this business for the remainder of the year. The Group's other three business areas have performed satisfactorily, with Leatherhead (food & beverage) outperforming the Board's expectations in terms of profit contribution. As a result, in aggregate, Group revenue and adjusted operating profit to date are in line with the Board's expectations.

With a significant proportion of the Group's revenue denominated in US Dollars or Euros, there is an inherent sensitivity within the financial results related to foreign currency exchange fluctuations. While this effect impacts most international companies, IFRS accounting results in Science Group being particularly susceptible due to the majority of the Group's non-Sterling denominated invoices being raised directly from the UK. In brief, IFRS accounting requires that in this operating model, the balance sheet (debtor and WIP) of the relevant operating UK subsidiary is revalued each month with any positive or negative movement being recognised in the Group P&L; in the case where the non-Sterling revenues are invoiced from an in-country subsidiary, such variances would be recognised directly in reserves, although in pre-tax cash terms there is no material difference. This accounting anomaly results in significant additional FX volatility in the reported IFRS Group P&L statement but has the cash benefit of recording profits in the UK (where the work is undertaken) with its lower corporation tax rate. The recent volatility in Sterling-US Dollar exchange rates has brought this issue into sharp focus but the Board considers that the cash benefit to the Group outweighs the non-cash IFRS P&L reporting volatility.

The works at Great Burgh, Epsom have now received planning consent and, despite the delays in this process, relocation of the Leatherhead and OTM businesses remains on track to be completed over the summer. Approximately 80 employees are now based at Epsom and feedback from client events held there in recent weeks has been excellent. Following the purchase of the Great Burgh freehold property, the Board has now commenced negotiations regarding the possibility of increasing the Group's banking facilities, such debt

to be secured on the Group's substantial freehold property assets which had a carrying value of £20.9 million as at 31 December 2015.

- Ends -

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