2 March 2017

SCIENCE GROUP PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group'), reports its audited results for the year ended 31 December 2016.

Summary

	2016	2015
Group revenue	£36.9m	£31.2m
Adjusted operating profit *	£6.2m	£5.3m
Statutory profit before tax	£3.0m	£2.4m
Adjusted basic earnings per share **	11.4p	10.3p
Statutory earnings per share	6.8p	7.2p
Net funds	£11.3m	£6.7m
Net-funds-plus-freehold-property-per-share at year end	84.5p	67.3p
Proposed / actual dividend per share	4.2p	4.0p

Science Group plc

Martyn Ratcliffe, Chairman — Tel: +44 (0) 1223 875 200

Rebecca Hemsted, Finance Director — www.sciencegroup.com

Numis Securities Limited

Nominated Adviser: Paul Gillam / Simon Willis — Tel: +44 (0) 20 7260 1000

Corporate Broking: Michael Burke

* Throughout this statement, adjusted operating profit 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.

** Throughout this statement, adjusted earnings per share is calculated 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 5. Adjusted profit after tax excludes adjusting items and includes a tax charge at the substantively enacted UK Corporation Tax Rate.

Chairman's Statement

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports a further year of resilient operating performance for the year ended 31 December 2016, a period of successful consolidation of the 2015 acquisitions. Overall the Group maintained strong operating margins despite external market and economic factors, acquisition integration, business relocation and the inherent volatility associated with a project-based consultancy. The Group maintains a robust balance sheet with significant cash resources and freehold property assets.

Financial Summary

For the year ended 31 December 2016, Group revenue was £36.9 million (2015: £31.2 million) of which Core Business Services revenue was £34.2 million (2015: £28.7 million). Adjusted operating profit for the year ended 31 December 2016 was £6.2 million (2015: £5.3 million). Cash generated from operations was an exceptionally strong £11.6 million (2015: £5.2 million). While the Group financial performance benefitted from movements in foreign exchange rates, primarily in the second half of the year, the Board took the opportunity to invest some of this benefit to strengthen the Group for the future. (Adjusted operating profit and other Alternative Performance Measures used in this report are defined in the Finance Director's Report.)

The increase in statutory profit before tax to £3.0 million (2015: £2.4 million) was offset by an increase in the corporation tax charge to £0.2 million (2015: tax credit of £0.4 million) resulting in basic earnings per share ('EPS') of 6.8 pence (2015: 7.2 pence). It should be noted that the Group actually received a net cash inflow related to Corporation Tax due to historic losses carried forward and R&D tax credits. This difference between the calculated tax charge and actual cash inflow is expected to be repeated in the 2017 financial year following which a modest tax cash outflow is anticipated to commence. An alternative performance measure of adjusted basic EPS (defined in the Finance Director's Report) which applies consistent tax rates has increased by 11% to 11.4 pence (2015: 10.3 pence).

Cash balance at 31 December 2016 was £26.0 million (2015: £14.5 million) with net funds of £11.3 million (2015: £6.7 million) including bank debt of £14.7 million (2015: £7.8 million). The Group has significant freehold property assets which have a combined balance sheet carrying value of £21.9 million (2015: £20.9 million), providing not only excellent facilities for the Group's offices and laboratories, but also an asset base for securitisation of attractive long term debt which creates a cost-effective operating model. Net-funds-plus-freehold-property-per-share in issue increased by over 25% to 84.5 pence per share (2015: 67.3 pence per share), representing an exceptionally strong asset base for a scientific consultancy organisation.

Business Overview

Science Group plc provides outsourced science and technology based consultancy, advisory and product development services to a wide range of industries/markets. The majority of the Group's revenues are derived from projects operated on behalf of clients on a time and materials basis, although some smaller projects are undertaken on a fixed price model. The Group's operations are based at its freehold properties in Harston, near Cambridge (approx. 100,000 sq ft gross area) and Epsom, Surrey (approx. 50,000 sq ft gross area). The Group also has leasehold offices in London, Boston, Houston and San Francisco.

The Group's multi-sector exposure contributes to the resilience of its trading performance. The Medical sector, primarily derived from the original Sagentia business, had a challenging first half of the year but delivered a strong sales recovery in the second half of 2016. In fact, this reinvigorated sector entered the new year with the strongest order book for many years. In contrast, the Commercial sector of the Sagentia business delivered a strong performance throughout 2016 although some major projects were successfully completed during the second half. As a result, in aggregate, the Sagentia business has started 2017 broadly in line with 2016. As anticipated, the oil and gas market for both OTM Consulting advisory work and Sagentia product development proved challenging throughout the year.

The two 2015 acquisitions were both integrated successfully during 2016, with Oakland Innovation delivering a strong performance benefitting from its entrepreneurial approach within the umbrella infrastructure of the Group. Demand for high quality, technically robust, forward-looking analyses within global science/technology markets continued to be strong. Meanwhile, despite the disruption of the business relocation, Leatherhead Research exceeded the Board's expectations providing a significant profit contribution, before one-off costs, although the second half of the year was affected by post-referendum uncertainty and volatility within the UK retail sector. As the integration of Oakland Innovation and Leatherhead Research progressed, the synergistic opportunities from these acquisitions became more tangible. These synergies are progressively being realised by the marketing of horizontal technical capabilities into vertical market sectors where the Group has highly relevant industry expertise.

North America continues to be a major market for the Group accounting for 44% of Group Core Business revenue in 2016 (2015: 57%) while Europe (excluding the UK) accounted for 27% of Group Core Business revenue (2015: 18%). With Sterling remaining low, particularly relative to the US Dollar over the past decade, the Board has increased investment into the US market and has announced the opening of a new office in California, alongside the Group's existing US offices in Boston and Houston. These US offices are increasingly being staffed by experienced Science Group managers and provide a stronger platform for the Group's offerings into this key market.

Corporate Matters

The Group's freehold properties provide a more cost-effective and more flexible business operating model compared to a fully repairing leasehold, particularly for a business requiring scientific laboratory facilities. With significant freehold property assets and the current low interest rates, the Board determined that a potential increase in both the amount and term of the Group's debt could benefit long term planning and corporate strategy implementation, particularly if this could be achieved without a material increase in the Group's financing risk profile. As a result, a new 10 year fixed term loan of £15 million was agreed during the year at a fixed effective rate of 3.5% throughout the 10 year term and, subject to certain conditions, no operating performance covenants. This financing model provides a fixed, low cost of capital to support the Group’s medium term strategy.

During the year, the equity buy back programme was continued, purchasing a total of 2,115,000 shares at a total cost of £2.8 million and an average purchase price of 130p. As a result, at 31 December 2016, the Company had 39,328,794 ordinary shares in issue and held an additional 2,733,241 shares in treasury (2015: 41,060,006 with an additional 1,002,029 shares held in treasury). In addition, during the year the Remuneration Committee of the Board reviewed the Group share option programmes and implemented a significant rationalisation, reducing the number of share options granted at 31 December 2016 to 1.7 million (2015: 3.0 million) for a cash outlay of £0.6 million. In aggregate, the shares in issue (excluding treasury shares) and the outstanding share options were reduced by approximately 7% during the year.

Following the completion of the acquisition integration and the long term capital model, combined with another solid year of operating performance and excellent cash flow, the Board is proposing to increase the dividend by 5% to 4.2 pence per share (2015: 4.0 pence), at a total cost of £1.7 million (2015: £1.6 million) based on the number of shares in issue at 28 February 2017. Subject to shareholder approval at the Annual General Meeting (‘AGM’), the dividend will be payable on 9 June 2017 to shareholders on the register at the close of business on 19 May 2017. As in previous years, the Board will also seek approval from shareholders at the AGM for authority to acquire up to 10% of the issued share capital of the Company so that, if deemed appropriate and in the best interests of shareholders, the Company may continue to make share purchases in the coming year. Due to the shareholding of the Chairman (34.1% at 28 February 2017), this authority will, as in previous years, be conditional on the passing of a general authority Panel waiver by shareholders and on Takeover Panel approval of a waiver of Rule 9 of the UK Code on Takeovers and Mergers.

Summary

In summary, the financial performance for the year was very satisfactory with continued strong adjusted operating margins and operating cash flow, enhanced by the devaluation of Sterling. Operationally, some market sectors were more challenging than the prior year and others were stronger, typical of the profile of a multi-sector, project-based consultancy Group. Diversification of market/industry sector revenue sources increases the resilience of the Group and this continues to be a key component of the Group’s strategy.

The Board adopts a non-political position with regard to geopolitical events and considers its role to be to respond to such developments not to comment on or critique the relative merits. Following the

UK referendum (now referred to as "Brexit") and the pending notification of Article 50, together with the political uncertainty (and potential ramifications) related to the forthcoming elections in the Netherlands, France and Germany during 2017, the Board remains cautious regarding the economic environment in Europe, whilst noting that 2016 saw a significant growth in the Group's revenue from the region. At the same time, reflecting the Group's historic contribution from North America, the weakness of Sterling relative to the US Dollar, and the potential economic stimuli implied by some of the anticipated policies of the new Washington Administration, the Board has responded rapidly in accelerating investment in the USA as demonstrated by the transfer of experienced senior managers to the geography and the decision to open a new operation in San Francisco.

Overall, Science Group plc continues to evolve with a capital structure and strong asset base reflecting the Board's medium term investment horizon and enabling the continued evaluation of both organic and acquisitive investment opportunities.

Martyn Ratcliffe
Chairman

Finance Director's Report

In the year ended 31 December 2016, the Group generated revenue of £36.9 million (2015: £31.2 million). Revenue from Core Business activities, that is revenue derived from delivering projects and consultancy services and materials recharged on these projects, increased to £35.8 million (2015: £30.1 million) due to the full year increment from the 2015 acquisitions. This increase was offset by declines in revenues in 2016 primarily within the Oil and Gas sector and also within the Medical sector. Non-Core revenue, comprising property and associated services income derived from space let in the Harston Mill facility, was £1.1 million (2015: £1.1 million).

Adjusted operating profit increased to £6.2 million (2015: £5.3 million) benefitting from the favourable foreign exchange environment. Adjusted operating profit margin remained strong at 16.8% (2015: 17.1%). (Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs, share based payment charges and other specified items that meet the criteria to be adjusted. Refer to Note 1 for further information on this and other alternative performance measures).

Statutory operating profit of £3.4 million (2015: £2.7 million) included an impairment of goodwill attributable to OTM Consulting of £1.0 million (2015: £1.1 million) reflecting the challenging oil and gas market sector, and Leatherhead acquisition integration costs of £0.3 million (2015: £0.5 million). Statutory profit before tax was £3.0 million (2015: £2.4 million) and statutory profit after tax was £2.7 million (2015: £2.8 million), with the increase in statutory profit before tax offsetting the increase in corporation tax charge. Reflecting the full year weighting of share options exercised during 2015, statutory basic earnings per share ('EPS') was 6.8 pence (2015: 7.2 pence).

A significant proportion of the Group's revenue is denominated in US Dollars and Euros and changes in exchange rates can have a significant influence on the financial performance. In 2016, £12.4 million of the Group Core Business revenue was denominated in US Dollars (2015: £15.6 million) and £3.9 million of the Group Core Business revenue was denominated in Euros (2015: £2.4 million). The exchange rates during the year resulted in a revenue and operating profit benefit, when compared to the rates in effect during 2015, of £1.7 million and £1.5 million respectively. The Board determined to use some of this benefit to accelerate some strategic investment programmes. The Group continues to monitor the volatility of the exchange rate and to date has decided not to utilise foreign exchange hedging instruments.

At 31 December 2016, Science Group had £11.8 million (2015: £17.0 million) of tax losses carried forward of which £1.4 million (2015: £6.6 million) relate to trading losses which are anticipated to be used to offset future trading profits. Previously recognised trading tax losses of £4.4 million (2015: £3.8 million) were utilised in the current year and a prior period adjustment was recognised due to the actual losses utilised in 2015 being £0.8 million higher than estimated. The remaining tax losses of £10.4 million (2015: £10.4 million) have not been recognised as a deferred tax asset due to the low probability that these losses will be able to be utilised.

The tax charge in the Consolidated Income Statement includes a benefit for the Research and Development tax claim for the 2015 and 2016 financial years which reduced the corporation tax charge by £0.7 million (2015: £0.8 million relating to the 2013 and 2014 financial years). In future years, the R&D tax credit will be recognised in the year to which it relates and will therefore typically only represent a single year. The R&D tax credit and the deferred tax adjustments resulted in a tax charge in the Consolidated Income Statement of £0.2 million (2015: credit of £0.4 million).

The Board anticipates that, in view of the trading tax losses carried forward and the R&D tax credits, if the Group's profit profile remains similar to 2016, the Group will receive a net cash inflow for the next financial year after which a tax cash outflow is anticipated to commence. However, the effective tax rate is anticipated to remain below the nominal UK corporation tax rate due to the benefit of R&D tax credits.

The accounting treatment of the various tax effects explained above coupled with the full year weighting of share options exercised in 2015 have in aggregate resulted in basic earnings per share being reported at 6.8 pence (2015: 7.2 pence). In order to provide a measure that demonstrates the underlying value generated by the Group at a per share level, an adjusted earnings per share measure has been presented. Adjusted basic earnings per share, which excludes adjusting items and includes a corporation tax charge on adjusted profit before tax at the substantively enacted UK Corporation Tax Rate, increased by 11% to 11.4 pence (10.3 pence) in line with the increase in adjusted operating profit.

The Group's term loan with Lloyds Bank plc ('Lloyds') was due to expire in 2018. During the year, a new 10 year fixed term loan of £15 million was successfully negotiated, secured on the freehold properties at Harston and Epsom. Phased interest rate swaps hedge the loan resulting in a 10-year fixed effective interest rate of 3.5%, comprising a margin over 3 month LIBOR and the cost of the swap instruments to fix the interest rate over the 10 year period. (For comparison, the effective interest rate on the previous 5-year term loan, which was scheduled to expire in 2018, was approximately 3.9%. This loan has been repaid). The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repayable on expiry of the loan in 2026. One-off costs of £0.3 million were incurred arising from cancellation of the prior loan and associated swap, together with arrangement and legal fees associated with the new loan. The new 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 under IAS 39, Financial Instruments, and the gain on change in fair value of the interest rate swaps, net of tax, entered into in 2016 of £0.2 million (2015: £nil) was recognised directly within equity. The settlement of the previous interest rate swap with the release of the previously recognised liability has resulted in a net loss of £75,000 in the Consolidated Income Statement in the year ended 31 December 2016 (2015: gain of £62,000).

The Group has maintained its strong balance sheet with shareholders' funds at 31 December 2016 of £36.0 million equivalent to 91.5 pence per share in issue (2015: shareholders' funds of £37.2 million, equivalent to 90.8 pence per share in issue), reflecting the share buy-back, dividends, goodwill impairment and amortisation of acquisition related intangible assets. 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 £21.9 million (2015: £20.9 million).

The gross cash position at 31 December 2016 was £26.0 million (2015: £14.5 million) and net funds were £11.3 million (2015: £6.7 million). The refinancing resulted in an increase in gross cash of £7.8 million with cash generated from operations of £11.6 million (2015: £5.2 million) including a VAT rebate of £1.5 million relating to the property purchase in 2015 and a beneficial working capital movement from project cash flow timing. Working capital management during the year continued to be a focus with debtor days of 42 days at 31 December 2016 (2015: 47 days).

The Group invested £2.4 million (2015: £7.9 million) in property, plant and equipment which was primarily relating to the development of the property in Epsom, Surrey and the net cash outflow related to the dividend, share buyback programme and share option exercises (including rationalisation programme) was £4.7 million (2015: £0.6 million). Net-funds-plus-freehold-property-per-share in issue, an alternative performance measure (which is calculated by dividing cash and cash equivalents less borrowings plus freehold land and buildings by the number of shares in issue at the balance sheet date) has increased by 26% to 84.5 pence per share (2015: 67.3 pence per share) reflecting the cash generated from operations and the effect of the share buyback programme.

Rebecca Hemsted
Finance Director

Consolidated Income Statement
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	2	**36,899**	31,220
Operating expenses		**(30,683)**	(25,896)
Adjusted operating profit		**6,216**	5,324
Amortisation and impairment of intangible assets		**(1,857)**	(1,660)
Impairment of other investments		**(50)**	-
Acquisition integration costs		**(317)**	(534)
Share based payment charge		**(597)**	(452)
Operating profit	2	**3,395**	2,678
Finance income		**2**	88
Finance costs		**(429)**	(326)
Profit before income tax		**2,968**	2,440
Income tax (charge) / credit	3	**(219)**	368
Profit for the year		**2,749**	2,808
Profit for the year attributable to equity holders of the parent		**2,749**	2,808
Earnings per share			
Earnings per share from continuing operations (basic)	5	**6.8p**	7.2p
Earnings per share from continuing operations (diluted)	5	**6.6p**	6.8p
Adjusted earnings per share from continuing operations (basic)	5	**11.4p**	10.3p
Adjusted earnings per share from continuing operations (diluted)	5	**11.1p**	9.9p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the year	**2,749**	2,808
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Fair value gain on interest rate swap, net of tax	**197**	-
Exchange differences on translating foreign operations	**30**	70
Other comprehensive income for the year	**227**	70
Total comprehensive income for the year	**2,976**	2,878
Total comprehensive income for the year attributable to owners of the parent	**2,976**	2,878

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2016

	Issued capital £000	Share premium £000	Treasury stock £000	Merger reserve £000	Translation reserve £000	Share based payment reserve £000	Retained earnings £000	Total – Shareholders funds £000
Balance at 1 January 2015	**421**	**7,806**	**(4,438)**	**10,343**	**238**	**1,907**	**17,172**	**33,449**
Purchase of own shares	-	-	(575)	-	-	-	-	**(575)**
Acquisition of Oakland Innovation Limited	-	424	940	-	-	-	-	**1,364**
Issue of shares out of treasury stock	-	-	2,858	-	-	-	(1,400)	**1,458**
Dividends paid	-	-	-	-	-	-	(1,527)	**(1,527)**
Share based payment charge	-	-	-	-	-	452	-	**452**
Deferred tax on share based payment transactions	-	-	-	-	-	-	(268)	**(268)**
Transactions with owners	**-**	**424**	**3,223**	**-**	**-**	**452**	**(3,195)**	**904**
Profit for the year	-	-	-	-	-	-	2,808	**2,808**
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	-	**70**	-	-	**70**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**70**	**-**	**2,808**	**2,878**
Balance at 31 December 2015	**421**	**8,230**	**(1,215)**	**10,343**	**308**	**2,359**	**16,785**	**37,231**

	Issued capital £000	Share premium £000	Treasury stock £000	Merger reserve £000	Translation reserve £000	Share based payment reserve £000	Retained earnings £000	Total – Shareholders funds £000
Balance at 1 January 2016	**421**	**8,230**	**(1,215)**	**10,343**	**308**	**2,359**	**16,785**	**37,231**
Purchase of own shares	-	-	(2,757)	-	-	-	-	**(2,757)**
Issue of shares out of treasury stock	-	-	364	-	-	-	(83)	**281**
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	**(361)**
Dividends paid	-	-	-	-	-	-	(1,646)	**(1,646)**
Share based payment charge (note 11)	-	-	-	-	-	353	-	**353**
Deferred tax on share based payment transactions	-	-	-	-	-	-	(74)	**(74)**
Transactions with owners	**-**	**-**	**(2,393)**	**-**	**-**	**(8)**	**(1,803)**	**(4,204)**
Profit for the year	-	-	-	-	-	-	2,749	**2,749**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	197	**197**
Exchange differences on translating foreign operations	-	-	-	-	**30**	-	-	**30**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**30**	**-**	**2,946**	**2,976**
Balance at 31 December 2016	**421**	**8,230**	**(3,608)**	**10,343**	**338**	**2,351**	**17,928**	**36,003**

Consolidated Balance Sheet
At 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Acquisition related intangible assets	7	**5,183**	6,000
Goodwill	7	**4,033**	5,073
Property, plant and equipment		**23,793**	22,040
Investments		**50**	100
Derivative financial assets		**197**	-
Deferred tax assets	4	**287**	1,324
		33,543	34,537
Current assets			
Trade and other receivables	8	**8,219**	8,980
Current tax asset		**537**	472
Cash and cash equivalents		**25,996**	14,516
		34,752	23,968
Total assets		**68,295**	58,505
Liabilities			
Current liabilities			
Trade and other payables	9	**15,213**	10,689
Borrowings	9	**1,000**	1,034
		16,213	11,723
Non-current liabilities			
Borrowings	10	**13,664**	6,753
Derivative financial liabilities	10	**-**	141
Deferred tax liabilities	4	**2,415**	2,657
		16,079	9,551
Total liabilities		**32,292**	21,274
Net assets		**36,003**	37,231
Shareholders' equity			
Share capital	11	**421**	421
Share premium		**8,230**	8,230
Treasury stock		**(3,608)**	(1,215)
Merger reserve		**10,343**	10,343
Translation reserve		**338**	308
Share based payment reserve		**2,351**	2,359
Retained earnings		**17,928**	16,785
Total equity		**36,003**	37,231

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	2016 £000	2015 £000
Operating profit	**3,395**	2,678
Adjustments for:		
Depreciation and amortisation charges	**1,562**	1,114
Loss on disposal of property, plant and equipment	**57**	7
Share based payment charge	**597**	452
Impairment of goodwill	**1,040**	1,066
Impairment of cost of investment	**50**	-
Decrease / (increase) in receivables	**675**	(1,412)
Increase in payables	**4,211**	1,283
Cash generated from operations	**11,587**	5,188
Finance costs	**(354)**	(326)
UK corporation tax received / (paid)	**560**	(9)
Foreign corporation tax (paid) / received	**(123)**	2
Cash flows from operating activities	**11,670**	4,855
Interest received	**2**	26
Purchase of property, plant and equipment	**(2,432)**	(7,857)
Purchase of subsidiary undertaking, net of cash received	**-**	(4,588)
Purchase of interest in associated companies	**-**	(100)
Cash flows used in investing activities	**(2,430)**	(12,519)
Issue of shares out of treasury	**281**	1,458
Payment in lieu of cancelled share options	**(605)**	-
Repurchase of own shares	**(2,757)**	(575)
Dividends paid	**(1,646)**	(1,527)
Proceeds from bank loans	**15,000**	-
Repayment of bank loans	**(8,000)**	(1,000)
Repayment of interest rate swap	**(216)**	-
Cash flows used in financing activities	**2,057**	(1,644)
Increase / (decrease) in cash and cash equivalents in the year	**11,297**	(9,308)
Cash and cash equivalents at the beginning of the year	**14,516**	23,802
Exchange gains on cash	**183**	22
Cash and cash equivalents at the end of the year	**25,996**	14,516

Extracts from notes to the financial statements

1. General Information

Science Group plc (the 'Company') and its subsidiaries (together 'Science Group' or 'Group') form an international science and technology consulting group. The Company is the ultimate parent company in which the results of all Science Group companies are consolidated.

Science Group provides advisory and product development services focused on science and technology initiatives. Our specialist companies, Sagentia, Oakland Innovation, OTM Consulting and Leatherhead Food Research, collaborate with their clients in key vertical markets to deliver returns on technology and R&D investments. Science Group's facilities include R&D centres in Cambridge, UK and Epsom, UK as well as sales and delivery offices in London, UK, Boston, Massachusetts, Houston, Texas and San Francisco.

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 2016, was 155.1 pence per share (31 December 2015: 138.0 pence).

Alternative performance measures
The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share' 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. Acquisition integration costs include all costs incurred directly related to the restructuring, relocation and integration of acquired businesses. Adjustments for share based payment charges occurs because: once the cost has been calculated, the Directors cannot influence the share based payment charge incurred in subsequent years; it is understood that many market analysts exclude the cost from their valuation analysis of the business; and the value of the share option to the employee differs considerably in value and timing from the actual cash cost to the Group.

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

(b) Adjusted earnings per share ('EPS')
The Group calculates this measure by dividing adjusted profit after tax by the weighted average number of shares in issue and the calculation of this measure is disclosed in Note 5. The tax rate applied to calculate the tax charge in this measure is the substantively enacted corporation tax rate for the year which is 20% (2015: 20.3%) which results in a comparable tax charge year on year.

1. General Information (continued)
Alternative performance measures (continued)

(c) Net-funds-plus-freehold-property-per-share in issue
The Group calculates this measure by dividing the sum of: cash and cash equivalents plus freehold land and buildings less borrowings by the number of shares in issue at the balance sheet date. This is calculated as follows:

		Group	
In £000 unless otherwise stated	Note	**2016**	2015
Cash and cash equivalents		**25,996**	14,516
Borrowings	10	**(14,664)**	(7,787)
Net funds		**11,332**	6,729
Freehold land and buildings		**21,882**	20,894
Net funds plus freehold property		**33,214**	27,623
Number of shares in issue (excluding treasury shares) ('000 shares)		**39,329**	41,060
Net-funds-plus-freehold-property-per-share in issue (pence)		**84.5**	67.3

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. 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. Segment information

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

Year ended 31 December 2016	**Core Business £000**	**Non-Core Business £000**	**Total £000**
Services revenue	34,228	36	34,264
Third party property income	-	1,079	1,079
Other	1,556	-	1,556
Revenue	**35,784**	**1,115**	**36,899**
Adjusted operating profit	**6,121**	**95**	**6,216**
Amortisation and impairment of intangible assets	(1,857)	-	(1,857)
Impairment of other investments	(50)	-	(50)
Acquisition integration costs	(317)	-	(317)
Share based payments	(597)	-	(597)
Operating profit	**3,300**	**95**	**3,395**
Finance charges (net)			(427)
Profit before income tax			**2,968**
Income tax charge			(219)
Profit for the year			**2,749**

2. Segment information (continued)

Year ended 31 December 2015	Core Business £000	Non-Core Business £000	Total £000
Services revenue	28,691	55	28,746
Third party property income	-	1,073	1,073
Other	1,401	-	1,401
Revenue	**30,092**	**1,128**	**31,220**
Adjusted operating profit	**5,286**	**38**	**5,324**
Amortisation and impairment of intangible assets	(1,660)	-	(1,660)
Acquisition integration costs	(534)	-	(534)
Share based payment charge	(452)	-	(452)
Operating profit	**2,640**	**38**	**2,678**
Finance charges (net)			(238)
Profit before income tax			**2,440**
Income tax credit			368
Profit for the year			**2,808**

Geographical segments

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

	2016		2015	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**10,324**	**33,213**	7,616	33,213
Other European countries	**9,739**	**-**	5,409	-
North America	**15,710**	**3**	17,244	-
Other	**1,126**	**-**	951	-
Total	**36,899**	**33,256**	31,220	33,213

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.

In 2016 and 2015, there was no single customer that accounted for 10% or more of the Group's revenues.

3. Income tax

The tax (charge) / credit comprises:

Year ended 31 December	**2016 £000**	2015 £000
Current taxation	**(131)**	(114)
Current taxation – adjustment in respect of prior years	**(42)**	(9)
Deferred taxation (Note 4)	**(657)**	(334)
Deferred taxation – adjustment in respect of prior years	**(64)**	37
R&D tax credit	**675**	788
	(219)	368

3. Income tax (continued)

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

	2016 £000	2015 £000
Profit before tax	**2,968**	2,440
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**(594)**	(494)
Expenses not deductible for tax purposes	**(457)**	(216)
Adjustment in respect of prior years – current tax	**(42)**	(9)
Adjustment in respect of prior years – deferred tax	**(64)**	-
Movement in deferred tax due to change in tax rate	**117**	86
Share scheme movements	**38**	605
Current year losses for which no deferred tax asset was recognised	**-**	(392)
Prior year losses used in the current year which were not previously recognised	**106**	-
R&D taxation credit	**675**	788
Tax credit/(charge)	**(219)**	368

The weighted average statutory applicable tax rate was 20.0% (2015: 20.3%).

The Group claims Research and Development tax credits under both the R&D expenditure credit scheme and the Small or Medium-sized Scheme. In previous financial years, the R&D tax credit have been provided for on a cash basis due to uncertainties with respect to estimating the amounts involved. The R&D tax credit provided in the year ended 31 December 2016 relates to the claims for the 2015 and 2016 financial years recognised on an accruals basis (2015: 2013 and 2014 financial years recognised on a cash basis). In future years, the R&D tax credit will be provided for in the year to which the R&D tax credit relates and based on a reasonable estimate of the amounts involved.

4. 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**	**Total £000**
At 1 January 2015	(2,007)	1,639	675	(172)	50	185
Acquisition of subsidiaries in the year	-	-	-	(953)	-	(953)
Charged to the income statement	35	(315)		-	(7)	(297)
Charged to equity	-	-	(10)	-	-	(268)
At 31 December 2015	**(1,972)**	**1,324**	**397**	**(1,125)**	**43**	**(1,333)**
Charged to the income statement	188	(973)	(28)	189	(33)	(657)
Charged to the income statement (prior year adjustment)	-	(64)	-	-	-	(64)
Charged to equity	-	-	(74)	-	-	(74)
At 31 December 2016	**(1,784)**	**287**	**295**	**(936)**	**10**	**(2,128)**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred tax liabilities are recognised against accelerated capital allowances. The Group has available tax losses of approximately £11.8 million (2015: £17.0 million) and these losses do not expire.

5. Earnings per share

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

	2016			2015		
	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	**2,749**	**40,542,379**	**6.8**	2,808	39,228,135	7.2
Effect of dilutive potential ordinary shares: share options	**-**	**1,094,273**	**(0.2)**	-	1,911,427	(0.4)
Diluted earnings per ordinary share	**2,749**	**41,636,652**	**6.6**	2,808	41,139,562	6.8

Only the share options granted are dilutive. The number of shares in issue (excluding treasury shares) at 31 December 2016 is 39,328,794 (2015: 41,060,006).

The calculation of adjusted earnings per share is as follows:

	2016			2015		
	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	**4,631**	**40,542,379**	**11.4**	4,056	39,228,135	10.3
Effect of dilutive potential ordinary shares: share options	**-**	**1,094,273**	**(0.3)**	-	1,911,427	(0.4)
Diluted earnings per ordinary share	**4,631**	**41,636,652**	**11.1**	4,056	41,139,562	9.9

*Calculation of adjusted profit after tax:

Group	**2016 £000**	2015 £000
Adjusted operating profit	**6,216**	5,324
Finance income	**2**	88
Finance costs	**(429)**	(326)
Adjusted profit before tax	**5,789**	5,086
Tax charge at substantively enacted tax rate of 20% (2015: 20.3%)	**(1,158)**	(1,030)
Adjusted profit after tax	**4,631**	4,056

6. Dividends

The proposed final dividend for 2015 of 4.0 pence per share was approved by the Board on 19 May 2016. An amount of £1.6 million was recognised as a distribution to equity holders in the year ended 31 December 2016.

The Board has proposed a final dividend for 2016 of 4.2 pence per share. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £1.7 million has not been included as a liability as at 31 December 2016.

7. Intangible Assets

	Customer contracts and relationships	Goodwill	Total
	£000	**£000**	**£000**
Cost			
At 1 January 2015	2,167	3,577	5,744
Acquisitions through business combinations	4,727	2,681	7,408
At 31 December 2015 and 31 December 2016	**6,894**	**6,258**	**13,152**
Accumulated amortisation			
At 1 January 2015	(293)	-	(293)
Amortisation charged in year	(594)	-	(594)
At 31 December 2015	(887)	-	(887)
Amortisation charged in year	(817)	-	(817)
At 31 December 2016	**(1,704)**	**-**	**(1,704)**
Accumulated impairment			
At 1 January 2015	(7)	(119)	(126)
Impairment losses for the year	-	(1,066)	(1,066)
At 31 December 2015	(7)	(1,185)	(1,192)
Impairment losses for the year	-	(1,040)	(1,040)
At 31 December 2016	**(7)**	**(2,225)**	**(2,232)**
Carrying amount			
At 31 December 2015	6,000	5,073	11,073
At 31 December 2016	**5,183**	**4,033**	**9,216**

Reconciliation of amortisation and impairment to the Consolidated Income Statement:

	2016	2015
	£000	£000
Amortisation of intangible assets	**(817)**	(594)
Impairment of goodwill relating to OTM	**(1,040)**	(1,066)
Amortisation and impairment of intangible assets	**(1,857)**	(1,660)

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

	2016 Pre tax discount rate	**£000**	2015 Pre tax discount rate	£000
OTM Consulting	**11.2%**	**1,352**	12.1%	2,392
Oakland Innovation	**11.0%**	**2,031**	12.1%	2,031
Leatherhead Research	**11.0%**	**650**	12.1%	650
		4,033		5,073

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.

7. Intangible Assets (continued)
Impairment review of goodwill (continued)

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 OTM Consulting CGU

The annual impairment test on goodwill resulted in an impairment of £1.0 million (2015: £1.1 million) for goodwill relating to OTM Consulting for the year ended 31 December 2016 which is included within the Core Business segment. This has arisen from a sustained deterioration in the oil and gas market that has continued longer than previously anticipated resulting in a reduction in forecast net future cash flows. The recoverable amount of the OTM Consulting cash generating unit ('CGU') was £2.8 million (2015: £4.1 million) and was measured on the basis of value in use estimated using discounted cash flows.

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 oil and gas industry and have been based on historical data from internal sources.

OTM Consulting CGU	**2016**	2015
Rate of growth/(decline) in revenue (average of next 4 years)	**10.9%**	(2.5)%
Rate of increase/(reduction) in operating costs (average of next 4 years)	**3.8%**	(1.7)%
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.

8. Trade and other receivables

	2016 £000	2015 £000
Current assets:		
Trade receivables	**7,297**	7,187
Provision for impairment	**(97)**	(116)
Trade receivables – net	**7,200**	7,071
Amounts recoverable on contracts	**356**	208
Other receivables	**14**	19
VAT	**-**	1,129
Prepayments	**649**	553
	8,219	8,980

9. Current liabilities

	2016 £000	2015 £000
Trade and other payables - current		
Payments received on account	**8,584**	5,342
Trade payables	**765**	639
Other taxation and social security	**941**	719
VAT	**367**	-
Deferred income	**895**	830
Accruals	**3,661**	3,159
	15,213	10,689
Borrowings	**1,000**	1,034
	16,213	11,723

10. Non-current liabilities

	2016 **£000**	2015 £000
Borrowings	**13,664**	6,753
Interest rate swap	**-**	141
Deferred income tax liabilities	**2,415**	2,657
	16,079	9,551

11. Called-up share capital

	2016 **£000**	2015 £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 2016 was 42,062,035 shares (2015: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 39,328,794 (2015: 41,060,006). A reconciliation of treasury shares held by the Company is as follows:

Reconciliation of treasury shares	Company **2016** **Number**	2015 Number
At beginning of year	**1,002,029**	4,725,420
Purchase of own shares	**2,115,000**	405,000
Settlement of share options	**(383,788)**	(3,085,058)
Treasury shares issued as settlement of a liquidated sum of cash consideration as part of the purchase of Oakland Innovation Limited satisfied by the sale of treasury shares		(1,043,333)
At end of year	**2,733,241**	1,002,029

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

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

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

	2016 **£000**	2015 £000
Equity settled share based payment charge	**353**	452
Accelerated charge due to cancelation in year	**244**	-
	597	452

11. Called-up share capital (continued)

During 2015, 2,500,000 treasury shares were issued at a price of 40.0 pence per share in settlement of the exercise of share options by Martyn Ratcliffe, Chairman of Science Group plc. These share options were specifically approved by independent shareholders in relation to Mr Ratcliffe's 2010 investment. Mr Ratcliffe had held these options for over five years and exercised them in order to provide liquidity in the Company's shares to satisfy demand from independent institutional shareholders. The exercise used the cashless exercise mechanism approved by shareholders at the AGM in 2013, with 1,600,000 shares sold in the market to fund the option price and partially satisfy tax obligations arising from this option exercise. The remaining 900,000 shares have been retained by Mr Ratcliffe. As a result, Mr Ratcliffe's shareholding as a percentage of the total issued share capital remains similar to that prior to this option exercise and the net cash effect is that Mr Ratcliffe made a further investment of approximately £100,000 in the Company. At 31 December 2015, Mr Ratcliffe has no other share options in the Company.

12. Borrowings

	2016	2015
	£000	£000
Non-current		
Bank borrowings	**13,664**	6,750
Other borrowings	**-**	3
	13,664	6,753
Current		
Bank borrowings	**1,000**	1,000
Other borrowings	**-**	34
	1,000	1,034
Total borrowings	**14,664**	7,787

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

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

The balance outstanding on the previous loan was repaid in full.

In order to address interest rate risk, the Group entered into phased interest rate swaps in order to fully hedge the loan resulting in a 10-year fixed effective interest rate of 3.5%. The Group has adopted hedge accounting for the interest rate swap under IAS 39, Financial Instruments, and the gain on change in fair value of the interest rate swaps entered into in 2016 of £197,000 (2015: £nil) was recognised directly within equity. The settlement of the previous interest rate swap with the release of the previously recognised liability has resulted in a net loss of £75,000 in the Consolidated Income Statement in the year ended 31 December 2016 (2015: gain of £62,000).

The fair value of the swap at 31 December 2016 was an asset of £197,000 (2015: liability of £141,000).

13. Post balance sheet events

There are no post balance sheet events to disclose.

14. Statement by the directors

Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union and as issued by the International Accounting Standards Board, this announcement does not itself contain sufficient information to comply with IFRSs. The accounting policies adopted in this preliminary announcement are consistent with the Annual Report for the year ended 31 December 2016.

The financial information set out above, which was approved by the Board on 1 March 2017, is derived from the full Group accounts for the year ended 31 December 2016 and does not constitute the statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group accounts on which the auditors have given an unqualified report, which does not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts for 2016, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 1 March 2017.

The Annual Report for the year ended 31 December 2016 will be posted to shareholders in due course and will be delivered to the Registrar of Companies following the Annual General Meeting of the Company. The report will also be available on the investor relations page of the Group’s website.

Further copies will be available on request and free of charge from the Company Secretary.

- Ends -