science group plc

5 March 2019

SCIENCE GROUP PLC

AUDITED RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports its audited results for the year ended 31 December 2018.

Summary

	2018	2017
Group revenue	£48.7m	£40.8m
Adjusted operating profit *	£7.7m	£6.9m
Statutory profit before tax	£4.9m	£3.9m
Adjusted basic earnings per share *	14.7p	12.8p
Statutory basic earnings per share	10.7p	7.7p
Net funds *	£8.8m	£6.0m
Net-funds-plus-freehold-property-per-share at year end *	75.9p	70.3p
Proposed / actual dividend per share	4.6p	4.4p

Science Group plc

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

www.sciencegroup.com

Panmure Gordon

Nominated Adviser: Dominic Morley, Alina Vaskina Tel: +44 (0) 20 7886 2500

Corporate Broking: Erik Anderson

* Alternative performance measures are provided in order to enhance the shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Refer to Note 1 for detail and explanation of the measures used.

Note: This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulations.

Chairman's Statement

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international consultancy providing applied science, product development, technology advisory and regulatory services to a client base in medical, food & beverage and commercial markets.

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 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), 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.

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 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 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

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 £0.2m and negative operating profit impact of £0.1m, 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%.

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.

Consolidated Income Statement

For the year ended 31 December 2018

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

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	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

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2018

Group	Issued capital	Share premium	Treasury stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total – Shareholders funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 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	-	-	-	-		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	-	-	-	-		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**

Consolidated Balance Sheet
At 31 December 2018

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

Refer to note 13 for an explanation of the restatement of the Consolidated Balance Sheet at 31 December 2017

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

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

Cash and cash equivalents is analysed as follows:

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

Extracts from notes to the financial statements

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).

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 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 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 5. 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.

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

(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	
	2018	2017
	£000	£000
Cash and cash equivalents – Group cash	**21,520**	19,893
Borrowings	**(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	**2018**	2017
Net funds	**8,831**	5,967
Freehold land and buildings	**21,552**	21,719
Net funds plus freehold property	**30,383**	27,686
Number of shares in issue (excluding treasury shares) ('000 shares)	**40,040**	39,367
Net-funds-plus-freehold-property-per-share in issue (pence)	**75.9**	70.3

Alternative performance measures
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. 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.

2. Segment information (continued)

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**

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.

2. Segment information (continued)

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).

3. Income tax

The tax charge comprises:

Year ended 31 December	**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	**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:

	2017 £000	2016 £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: £0.3m). 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'.

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 (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)
Charged 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)**

	2018 £000	2017 £000
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.

Factors affecting future tax charges

A reduction in the UK corporation tax rate from 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.

5. 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 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:

	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.

6. 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 Annual General Meeting and the expected cost of £1.84 million has not been included as a liability as at 31 December 2018.

7. Intangible Assets

	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	5,726	7,206	12,932
At 31 December 2017	**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:

	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 to TSG America decreasing by the same amount as a result of re-measuring the provision recognised at the date of acquisition of TSG.

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.

7. Intangible Assets (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.

8. Trade and other receivables

	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
VAT	**6**	33
Prepayments	**847**	889
	9,717	9,381

9. Cash and cash equivalents

	2018 £000	2017 £000
Short term bank deposits – Group cash	**37**	37
Cash at bank and in hand – Group cash	**21,483**	19,856
Cash and cash equivalents – Group cash	**21,520**	19,893
Cash at bank and in hand – Client registration funds	**1,487**	887
	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.

10. Trade and other payables

	2018 £000	2017 £000 (Restated)
Current liabilities		
Payments received on account	**10,752**	10,006
Trade payables	**1,110**	1,518
Other taxation and social security	**786**	825
VAT	**392**	-
Accruals	**4,336**	5,859
	17,376	18,208

11. Provisions

	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**

	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 1.0 year (2017: 2.0 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 represent 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.

12. 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.

13. Restatement

It was identified that at 31 December 2017, a balance of £1.2m 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 £1.2m. This adjustment has not affected Group net assets or profit or loss. The adjustment did not have effect on the parent company's accounts.

14. Called-up share capital

	2018	2017
	£000	£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:

Reconciliation of treasury shares	**2018**	2017
	Number	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.

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

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

14. Borrowings

	2018	2017
	£000	£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

	2018	2017
	£000	£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 year	**(1,250)**	(750)
Amortisation of arrangement fee in the year	**13**	12
Total borrowings	**12,689**	13,926

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.

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

	2018	2017
	£000	£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).

15. Post balance sheet events

The Group has increased the 10 year fixed term loan from £12.75m to £17.5m on otherwise similar terms. The interest cost on the additional £4.75m 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.

16. 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 2018.

The financial information set out above, which was approved by the Board on 4 March 2019, is derived from the full Group accounts for the year ended 31 December 2018 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 2018, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 5 March 2019.

The Annual Report for the year ended 31 December 2018 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 -