science group

24 July 2018

SCIENCE GROUP PLC

(“Science Group” or the “Group” or the “Company”)

INTERIM RESULTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018

Summary

	H1-18	H1-17
Group revenue	£25.1m	£18.0m
Adjusted operating profit *	£3.7m	£3.2m
Statutory operating profit	£2.7m	£2.5m
Statutory profit before tax	£2.5m	£2.3m
Adjusted basic earnings per share *	7.0p	6.1p
Statutory basic earnings per share	6.0p	5.1p
Net funds *	£5.1m	£12.1m
Net-funds-plus-freehold-property-per-share *	66.8p	86.2p

Enquiries:

Science Group plc

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

Rebecca Archer, Finance Director — www.sciencegroup.com

Panmure Gordon (UK) Limited

Dominic Morley / Alina Vaskina (Corporate Finance) — Tel: +44 (0) 20 7886 2500

Erik Anderson (Corporate Broking)

* 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.

Interim Results 2018

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, commercial and food & beverage markets.

The first half of 2018 has seen continued solid financial performance and good progress on the integration of Technology Sciences Group ('TSG'), acquired in September 2017. Benefitting from the acquisition, the Group reports record revenues, converting into strong adjusted operating profit growth and an adjusted earnings per share increase of 15%. The balance sheet of the Group remains very strong with significant cash resources and freehold property assets.

Group Financial Performance

For the six months ended 30 June 2018, the Group generated adjusted operating profit of £3.7 million (H1 2017: £3.2 million) in line with the Board's expectations, on revenue of £25.1 million (H1 2017: £18.0 million). Adjusted earnings per share increased to 7.0 pence (H1 2017: 6.1 pence).

Profit before tax was £2.5 million (H1 2017: £2.3 million). Profit after tax of £2.4 million (H1 2017: £2.0 million) includes a corporation tax charge of £0.1 million (H1 2017: £0.3 million) which benefitted from a tax credit of £0.2m relating to share options exercised in the period. Basic earnings per share was 6.0 pence (H1 2017: 5.1 pence) and diluted earnings per share in H1 2018 was 5.8 pence (H1 2017: 5.0 pence). At 30 June 2018, the Company had 40.0 million shares in issue (excluding treasury shares) compared to 39.4 million at 30 June 2017.

Approximately 85% (H1 2017: 80%) of the Group's Core Business revenue is derived from international markets, with 32% being denominated in US Dollars (H1 2017: 32%) and 26% in Euros (H1 2017: 9%). The remaining international clients, primarily in Europe, are invoiced in Sterling. The average US Dollar exchange rate in the period was 1.38 (H1 2017: 1.26 and H2 2017: 1.32) and the average Euro exchange rate in the period was 1.14 (H1 2017: 1.17 and H2 2017: 1.12). As a result, the net effect of currency movements during the period on Core Business revenue and adjusted operating profit, relative to the prior year on a like for like basis, was a negative £0.3 million.

The Group retains a robust balance sheet with Gross Cash at 30 June 2018 of £18.5 million (30 June 2017: £26.3 million) and Net Funds of £5.1 million (30 June 2017: £12.1 million). In aggregate, Net Funds plus Freehold Property total £26.7 million (30 June 2017: £33.9 million) equivalent to 66.8 pence per share (30 June 2017: 86.2 pence per share), based on the balance sheet (cost-based) value of the freehold property, which is at the bottom end of the range of independent market valuations (as at March 2018).

Business Sector Review

The Applied Science and Product Development activities, accounting for 48% of Core Business revenue, reported growth on both a year-on-year and sequential period basis. The Medical sector delivered a strong performance in the period while the Commercial sector declined compared to the prior year, due to completion of some larger projects, sustaining revenue in line with the second half of 2017.

Following the acquisition of TSG, the Group's Regulatory Services now account for 37% of Core Business revenue. Taking into account the acquisition integration impact, both TSG America and TSG Europe delivered performance in line with expectations, while the Leatherhead Food & Beverage Regulatory Services continued to make good progress.

The Technology Advisory Services, accounting for 14% of Core Business revenue, reported a flat performance. The sector structure within Technology Advisory increasingly aligns with other parts of the Group. Similar to the Applied Science and Product Development business models, the Advisory model mitigates volatility within any vertical market through a talented, scalable team of international scientific consultants who can operate across a diversity of industries.

Strategic and Corporate Developments

Following the TSG acquisition, the initial priority was to improve the financial and business processes in TSG America. This programme has also included a market segmentation initiative to improve profitability and reduce credit risk within the North American business. Good progress has been made during the first half of 2018.

In parallel, standardised policies and processes were also introduced into TSG Europe. However, during the first half of 2018, and coinciding with the appointment of a Head of the TSG European business, it became apparent that the strategy needed to be reviewed to focus on the larger European geographies which offer greater potential. As a result, in June, a new subsidiary in France was launched and a team recruited to service this strategic market where TSG had previously had minimal presence. In contrast, it became apparent that the small operations across Central/Eastern Europe, with an average of 2 consultants in each country, were absorbing a disproportionate amount of management and support resource relative to their profit contribution and future market potential. As a result, it was decided to close these sub-scale subsidiaries/branches and to appoint associate organisations, as deployed in other territories, to support multi-national clients in a more efficient business model.

With regard to the wider Science Group, where each business unit provides science-based services into client market sectors, the operating brands align with either a service (e.g. Sagentia with product development) or a market (e.g. Leatherhead Food Research with the food & beverage industry). Over time, the boundaries of these business units are increasingly blurred which enables the wider marketing of the Group's breadth of services to our clients. To that end, the Group adopts a flexible resource model with alignment of incentive programmes to encourage collaboration and mobility between businesses. This approach also enables investment in areas of higher potential. During the first half of 2018, this evolutionary process continued, particularly within the Food & Beverage market and the Group organisation will continue to evolve along this path over the next 6-12 months.

The Board is also exploring the merits of separating the Harston Mill building from the Sagentia operations. This is a legacy structure which was tax efficient but now limits the benefits that could be derived from the Group's freehold asset base and the separation of trading and property activities. However, any change in the ownership of Harston Mill, even within the Group, would result in a tax cash outflow in the range of £1.8 million to £2.1 million. The Group already carries a liability of £1.7 million on the balance sheet and it may be feasible to offset a proportion of the tax impact over a period of time through use of tax losses in the company previously used for the Group's legacy investments.

Summary

In summary, the Group financial performance in the first half of 2018 has been in line with the Board's expectations. The Group's balance sheet remains very strong including significant cash resources. The long term debt is secured against the Group's freehold property.

The integration of TSG is progressing satisfactorily, with improvements in financial controls and operating processes already translating into improved profitability. The strategy evolution of the North American business has been based around market segmentation while the European strategy developments have refocused the business on the major European markets whilst maintaining the wide geographical coverage to service TSG clients.

The Group strategy is continually evolving which is essential in a leading science & technology business. The combination of outstanding science, engineering, regulatory and advisory resources, providing leading edge technology services into vertical market sectors led by managers with deep industry knowledge and experience, provides a differentiated business model. Combining that outstanding capability with disciplined financial and commercial management, is the enabler for delivering shareholder value.

Consolidated Income Statement

For the period ended 30 June 2018

	Notes	**Six months ended 30 June 2018 (Unaudited) £000**	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Revenue	4	**25,135**	18,020	40,823
Operating expenses before adjusting items		**(21,427)**	(14,783)	(33,917)
Adjusted operating profit	4	**3,708**	3,237	6,906
Amortisation and impairment of intangible assets		**(1,003)**	(557)	(1,410)
Acquisition integration costs		**(282)**	-	(812)
Release of contingent consideration	8	**519**	-	-
Share based payment charge		**(232)**	(132)	(312)
Operating profit	4	**2,710**	2,548	4,372
Finance income		**1**	-	3
Finance costs		**(221)**	(245)	(496)
Profit before income tax		**2,490**	2,303	3,879
Income tax charge (including R&D tax credit of £154,000 (H1-17 £155,000))	6	**(116)**	(306)	(861)
Profit for the period	4	**2,374**	1,997	3,018
Profit for the period attributable to equity holders of the parent		**2,374**	1,997	3,018
Earnings per share				
Earnings per share from continuing operations (basic)	7	**6.0p**	5.1p	7.7p
Earnings per share from continuing operations (diluted)	7	**5.8p**	5.0p	7.5p
Adjusted earnings per share from continuing operations (basic)	7	**7.0p**	6.1p	12.8p
Adjusted earnings per share from continuing operations (diluted)	7	**6.8p**	6.0p	12.5p

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2018

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Profit for the period	**2,374**	1,997	3,018
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value gain on interest rate swap, net of tax	**132**	70	30
Exchange differences on translating foreign operations	**(30)**	3	(28)
Deferred tax on interest rate swap	**(25)**	-	(5)
Deferred tax on interest rate swap - prior period adjustment	**-**	-	(38)
Other comprehensive(expense)/ income for the period	**77**	73	(41)
Total comprehensive income for the period	**2,451**	2,070	2,977
Total comprehensive income for the period attributable to owners of the parent	**2,451**	2,070	2,977

Consolidated Statement of Changes in Shareholders' Equity

For the period ended 30 June 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**
Issue of shares out of treasury stock	-	-	34	-	-	-	(20)	**14**
Dividends	-	-	-	-	-	-	(1,653)	**(1,653)**
Share based payment charge	-	-	-	-	-	132	-	**132**
Deferred tax on share based payment transactions	-	-	-	-	-	-	145	**145**
Transactions with owners	-	-	34	-	-	132	(1,528)	**(1,362)**
Profit for the period	-	-	-	-	-	-	1,997	**1,997**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	70	**70**
Exchange differences on translating foreign operations	-	-	-	-	3	-	-	**3**
Total comprehensive income for the period	-	-	-	-	3	-	2,067	**2,070**
Balance at 30 June 2017	**421**	**8,230**	**(3,574)**	**10,343**	**341**	**2,483**	**18,467**	**36,711**
Balance at 1 July 2017	**421**	**8,230**	**(3,574)**	**10,343**	**341**	**2,483**	**18,467**	**36,711**
Purchase of own shares	-	-	-	-	-	-	-	**-**
Issue of shares out of treasury stock	-	-	5	-	-	-	(4)	**1**
Share based payment charge	-	-	-	-	-	180	-	**180**
Deferred tax on share based payment transactions	-	-	-	-	-	-	(60)	**(60)**
Transactions with owners	**-**	**-**	**5**	**-**	**-**	**180**	**(64)**	**121**
Profit for the period	-	-	-	-	-	-	1,021	**1,021**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	(40)	**(40)**
Exchange differences on translating foreign operations	-	-	-	-	(31)	-	-	**(31)**
Deferred tax on interest rate swap	-	-	-	-	-	-	(43)	**(43)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(31)**	**-**	**938**	**907**
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	-	-	(180)	-	-	-	-	**(180)**
Issue of shares out of treasury stock	-	-	954	-	-	-	(840)	**114**
Dividends paid	-	-	-	-	-	-	(1,760)	**(1,760)**
Share based payment charge	-	-	-	-	-	232	-	**232**
Deferred tax on share based payment transactions	-	-	-	-	-	-	(112)	**(112)**
Transactions with owners	**-**	**-**	**774**	**-**	**-**	**232**	**(2,712)**	**(1,706)**
Profit for the period	-	-	-	-	-	-	2,374	**2,374**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	132	**132**
Exchange differences on translating foreign operations	-	-	-	-	(30)	-	-	**(30)**
Deferred tax on interest rate swap	-	-	-	-	-	-	(25)	**(25)**
Total comprehensive income for the period	-	-	-	-	(30)	-	2,481	**2,451**
Balance at 30 June 2018	**421**	**8,230**	**(2,795)**	**10,343**	**280**	**2,895**	**19,110**	**38,484**

Consolidated Balance Sheet

At 30 June 2018

	At 30 June 2018 (Unaudited) £000	At 30 June 2017 (Unaudited) £000	At 31 December 2017 (Audited) £000 (Restated)
Assets			
Non-current assets			
Acquisition related intangible assets	**8,496**	4,626	9,499
Goodwill	**11,535**	4,033	11,535
Property, plant and equipment	**23,438**	23,556	23,787
Investments	**50**	50	50
Derivative financial assets	**359**	267	227
Deferred tax assets	**160**	333	104
	44,038	32,865	45,202
Current assets			
Trade and other receivables	**8,912**	5,716	9,381
Current tax asset	**20**	21	-
Cash and cash equivalents - Client registration funds	**1,241**	-	887
Cash and cash equivalents – Group Cash	**18,522**	26,284	19,893
	28,695	32,021	30,161
Total assets	**72,733**	64,886	75,363
Liabilities			
Current liabilities			
Trade and other payables	**15,798**	11,859	18,208
Current tax liabilities	**521**	-	554
Provisions	**1,136**	-	825
Borrowings	**1,250**	1,000	1,250
	18,705	12,859	20,837
Non-current liabilities			
Provisions	**339**	-	466
Borrowings	**12,182**	13,169	12,676
Contingent consideration	**-**	-	519
Deferred tax liabilities	**3,023**	2,147	3,126
	15,544	15,316	16,787
Total liabilities	**34,249**	28,175	37,624
Net assets	**38,484**	36,711	37,739
Shareholders' equity			
Share capital	**421**	421	421
Share premium	**8,230**	8,230	8,230
Treasury stock	**(2,795)**	(3,574)	(3,569)
Merger reserve	**10,343**	10,343	10,343
Translation reserves	**280**	341	310
Share based payment reserve	**2,895**	2,483	2,663
Retained earnings	**19,110**	18,467	19,341
Total equity	**38,484**	36,711	37,739

Restatement: It was identified that at 31 Dec 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 Dec 2017 has been recognised to reduce both these balances by £1.2m. This adjustment has not affected net assets.

Consolidated Statement of Cash Flows

For the period ended 30 June 2018

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Operating profit	**2,710**	2,548	4,372
Adjustments for:			
Amortisation on acquisition related intangible assets	**1,003**	557	1,410
Depreciation on property, plant and equipment	**396**	358	728
Release of contingent consideration	**(519)**	-	-
Movement in provisions	**334**	-	-
Settlement of onerous lease provision	**(150)**	-	-
Share based payment charge	**232**	132	312
Decrease in receivables	**225**	2,508	1,406
Increase in payables representing client registration funds	**354**	-	887
Decrease in payables excluding balances representing client registration funds	**(2,526)**	(3,329)	(469)
Cash generated from operations	**2,059**	2,774	8,646
Finance costs	**(221)**	(245)	(386)
UK corporation tax (paid) / received	**(466)**	41	(91)
Foreign corporation tax received	**-**	-	19
Cash flows from operating activities	**1,372**	2,570	8,188
Interest received	**1**	-	3
Purchase of property, plant and equipment	**(43)**	(121)	(471)
Purchase of subsidiary undertakings, net of cash received	**-**	-	(10,435)
Cash flow used in investing activities	**(42)**	(121)	(10,903)
Issue of shares out of treasury	**114**	14	15
Repurchase of own shares	**(180)**	-	-
Dividends paid	**(1,760)**	(1,653)	(1,653)
Repayment of bank loans	**(500)**	(500)	(750)
Cash flows used in financing activities	**(2,326)**	(2,139)	(2,388)
Increase in cash and cash equivalents in the period	**(996)**	310	(5,103)
Cash and cash equivalents at the beginning of the period	**20,780**	25,996	25,996
Exchange (losses) / gains on cash	**(21)**	(22)	(113)
Cash and cash equivalents at the end of the period	**19,763**	26,284	20,780

Cash and cash equivalents is analysed as follows:

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Cash and cash equivalents – Client registration funds	**1,241**	-	887
Cash and cash equivalents – Group cash	**18,522**	26,284	19,893
	19,763	26,284	20,780

Extracts from notes to the financial statements

1. General information

The financial information for the 6 months ended 30 June 2018 set out in this interim report is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information included has been extracted from the 2017 Financial Statements of Science Group plc. The Group's statutory financial statements for the year ended 31 December 2017 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

These un-audited interim results have been approved for issue by the Board of Directors on 23 July 2018.

The group and company financial statements of Science Group plc for the year ended 31 December 2017 were prepared under IFRS (as adopted by the EU) and have been audited by KPMG LLP. Copies of the Financial Statements are available from the company's registered office: Harston Mill, Harston, Cambridge, CB22 7GG and can be found on the company's website at www.sciencegroup.com.

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 results of all the Science Group companies are consolidated.

The Company is incorporated in England and Wales and has its primary listing on the AIM Market of the London Stock Exchange (SAG).

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 in the 2017 Financial Statements and the calculations are as follows:

(a) Adjusted operating profit

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

(b) Adjusted earnings per share

The calculation of this measure is disclosed in Note 7.

(c) Net funds

This measure is calculated as follows:

In £000 unless otherwise stated	**At 30 June 2018**	At 30 June 2017	At 31 December 2017
Cash and cash equivalents – Group cash	**18,522**	26,284	19,893
Borrowings	**(13,432)**	(14,169)	(13,926)
Net funds	**5,090**	12,115	5,967

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

The Group calculates this measure as follows:

In £000 unless otherwise stated	**At 30 June 2018**	At 30 June 2017	At 31 December 2017
Net funds	**5,090**	12,115	5,967
Freehold land and buildings	**21,639**	21,799	21,719
Net funds plus freehold property	**26,729**	33,914	27,686
Number of shares in issue (excluding treasury shares) ('000 shares)	**40,015**	39,363	39,367
Net-funds-plus-freehold-property-per-share in issue (pence)	**66.8**	86.2	70.3

2. Accounting policies

The principal accounting policies applied in the preparation of these interim financial statements are unchanged from those set out in the financial statements for the year ended 31 December 2017 except as described below in Note 2.2. These policies have been consistently applied to all the periods presented except where detailed below.

2.1 Basis of preparation

These interim consolidated financial statements are for the six months ended 30 June 2018. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards as adopted by the EU and IFRC interpretations issued and effective at the time of preparing these statements.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share based payments which are measured at fair value.

2.2 Changes in accounting policies

This is the first set of the Group's financial statements where IFRS 15 and IFRS 9 have been applied. The Group has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Impact on transition

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

IFRS 15 Revenue from Contracts with Customers

The key principle that was considered on transition of this accounting standard was whether revenue is recognised at a point in time or over a period of time as the services are performed. It was concluded that revenue is recognised under IFRS 15 as the time is worked at the fee rate specified within the contract; the majority of projects are performed on a time and materials basis under which i) all work performed is fully transferable to the client at any point during the project and ii) the Company has the right to receive payment for its services performed up to any given point in time.

IFRS 9 Financial Instruments

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

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

The updated accounting policies have been provided below and the disclosures have been provided in line with the requirements of IFRS 15 *Revenue from Contracts with Customers* and IAS 34 *Interim Financial Reporting*.

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

The accounting policies that reflect the new accounting standards for IFRS 15 and IFRS 9 are effective from 1 January 2018 and are as follows:

Revenue recognition

The Core Business segment provides consultancy services to clients across the medical, commercial and food & beverage markets. Revenue from providing services is recognised in the accounting period in which the services are rendered. The majority of projects are priced on a time and materials basis and the revenue for these projects is recognised based on the actual labour hours spent at the contractual fee rates.

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

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

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

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

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

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

Financial instruments

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

(ii) those to be measured at amortised cost.

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

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

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

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

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

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

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

Equity instruments
The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit

or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

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

(c) Impairment

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

2.3 Standards issued not yet effective

The Group has the following update to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

IFRS 16 *Leases*

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, and the standard is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 will depend on future economic conditions, including the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of offices spaces. As at 30 June 2018, only some of the Group's property leases meet the criteria to be accounted for under IFRS 16 due to the contractual terms and materiality of the tenancies. For these leases, the Group's future minimum lease payments under non-cancellable operating leases amounted to £2.8 million on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

3. Financial risk management

3.1 Financial risk factors

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

4. Segmental 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.

Period ended 30 June 2018 (Unaudited)	**Core Business £000**	**Non-Core Business £000**	**Total £000**
Services revenue	23,918	2	23,920
Third party property income	-	515	515
Other	700	-	700
Revenue	**24,618**	**517**	**25,135**
Adjusted operating profit	**3,643**	**65**	**3,708**
Amortisation and impairment of intangible assets	(1,003)	-	(1,003)
Release of contingent consideration	519	-	519
Acquisition and integration costs	(282)	-	(282)
Share based payment charge	(232)	-	(232)
Operating profit	**2,645**	**65**	**2,710**
Finance charges (net)			(220)
Profit before income tax			**2,490**
Income tax charge			(116)
Profit for the period			**2,374**

Period ended 30 June 2017 (Unaudited)	**Core Business £000**	**Non-Core Business £000**	**Total £000**
Services revenue	16,801	18	16,819
Third party property income	-	544	544
Other	657	-	657
Revenue	**17,458**	**562**	**18,020**
Adjusted operating profit	**3,132**	**105**	**3,237**
Amortisation and impairment of intangible assets	(557)	-	(557)
Share based payment charge	(132)	-	(132)
Operating profit	**2,443**	**105**	**2,548**
Finance charges (net)			(245)
Profit before income tax			**2,303**
Income tax charge			(306)

Profit for the period			**1,997**

Year ended 31 December 2017 (Audited)	**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			
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 period			**3,018**

5. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements and Note 4. The Group's revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical market and by the currency in which the contract is denominated. The table includes Core Business Revenue; all Non-Core Business Revenue is generated in the UK and denominated in GBP.

For the 6 months ended June
(Unaudited)

Currency	**USD £000**	**EUR £000**	**GBP £000**	**Other £000**	**Total £000**
2018	**7,888**	**6,405**	**10,295**	**30**	**24,618**
2017	5,559	1,625	10,274	-	17,458

Geographical market	**North America £000**	**Europe (excl UK) £000**	**UK £000**	**Other £000**	**Total £000**
2018	**8,989**	**10,462**	**3,671**	**1,496**	**24,618**
2017	7,316	6,033	3,511	598	17,458

6. Income tax

The income tax charge for the period ended 30 June 2018 is charged at the effective tax rate calculated for the period using reasonable estimates and incorporating both current and deferred taxation:

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Profit before tax	**2,490**	2,303	3,879
Current taxation	**(590)**	(630)	(1,281)

Current taxation – adjustment in respect of prior years	**24**	-	(34)
Deferred taxation	**296**	169	196
Deferred taxation – adjustment in respect of prior years	**-**	-	(50)
R&D tax credit	**154**	155	308
Tax charge	**(116)**	(306)	(861)
Effective tax rate	**4.7%**	13.3%	22.2%

The Group claims Research and Development tax credits under both the R&D Expenditure Credit scheme and the Small or Medium-sized scheme. The R&D tax credit of £154,000 (H1 2017: £155,000) was recognised on an accruals basis for the period to which the R&D tax credit relates and based on a reasonable estimate of the amounts involved.

7. Earnings per share

The calculation of earnings per share is based on the following results and number of shares:

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Profit for the financial period	**2,374**	1,997	3,018
Weighted average number of shares:		Number	
For basic earnings per share	**39,750,141**	39,344,121	39,316,141
For fully diluted earnings per share	**40,793,940**	40,327,332	40,273,725
Earnings per share:	Pence	Pence	Pence
Basic earnings per share	**6.0**	5.1	7.7
Fully diluted earnings per share	**5.8**	5.0	7.5

The calculation of adjusted earnings per share is as follows:

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Adjusted* profit after tax for the period	**2,790**	2,415	5,032
Weighted average number of shares:	**Number**	Number	Number
For basic earnings per share	**39,750,141**	39,344,121	39,316,141
For fully diluted earnings per share	**40,793,940**	40,327,332	40,273,725
Adjusted earnings per share:	Pence	Pence	Pence
Basic earnings per share	**7.0**	6.1	12.8
Fully diluted earnings per share	**6.8**	6.0	12.5

*Calculation of adjusted profit after tax:

	Six months ended 30 June 2018 (Unaudited) £000	Six months ended 30 June 2017 (Unaudited) £000	Year ended 31 December 2017 (Audited) £000
Adjusted operating profit	**3,708**	3,237	6,906
Finance income	**1**	-	3
Finance costs	**(221)**	(245)	(496)

Adjusted profit before tax	**3,488**	2,992	6,413
Tax charge at approx blended average tax rate of 20.0% (H1-17: 19.3%)	**(698)**	(577)	(1,381)
Adjusted profit after tax	**2,790**	2,415	5,032

8. Contingent consideration

A contingent consideration of £0.5 million was recognised on acquisition of TSG in September 2017. During the 6 months ended 30 June 2018, the 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 and is separately disclosed as an adjusting item.

9. Provisions

	Onerous lease £000	**Dilapid-ations £000**	**Restruct-uring £000**	**Other £000**	**Total £000**
At 1 January 2017 and 1 July 2017	-	-	-	-	-
Provisions held by acquired companies at date of acquisition	495	183	-	615	1,293
Increase in provision	-	16	-	-	16
Gain on foreign currency fluctuations	-	-	-	(18)	(18)
At 31 December 2017	495	199	-	597	1,291
Increase in provision	-	157	199	379	735
Utilisation of provision	(150)	-	-	-	(150)
Release of provision not required due to settlement of contract	(95)	(34)	-	(281)	(410)
Loss/(Gain) on foreign currency fluctuations	6	(3)	-	6	9
At 30 June 2018	256	319	199	701	1,475

	At 30 June 2018 (Unaudited) £000	At 30 June 2017 (Unaudited) £000	At 31 December 2017 (Audited) £000
Current liabilities	**1,136**	-	825
Non-current liabilities	**339**	-	466
	1,475	-	1,291

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.

Other provisions represents the best estimate of the future economic outflow of settling potential litigation claims and associated costs such as legal fees. In all cases, the claims are being investigated by our lawyers and are being robustly contested as to both liability and quantum. These claims are expected to be resolved within one year of the reporting date 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 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 the same amount. This reallocation is the provision change net of deferred tax.

10. Share based remuneration schemes

During the 6 months ended 30 June 2018, 733,000 share options were exercised by employees. 1,750,000 share options were issued and 160,000 share options lapsed resulting in 2,734,000 (2017: 1,877,000) unexercised share options at the period end. Of these, 54,000 (2017: 793,000) have vested. At 30 June 2018, unexercised options granted to subscribe for ordinary shares of the company are as follows:

	Option exercise period		Number of shares under option							
Date of grant	From	To	Approved	Unapproved	Performance share plan	Enhanced Executive Incentive Addendum	Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
Nov 2012	Nov 2015	Nov 2022	20,058	4,942	-	-	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	-	-	6,666	-	1.0	80.8	10	25%
Sep 2014	Sep 2017	Sep 2024	-	-	8,333	-	1.0	74.8	10	18%
Apr 2015	Apr 2018	Apr 2025	-	-	14,000	-	1.0	86.7	10	16%
Sep 2015	Sep 2018	Sep 2025	-	-	270,000	-	1.0	77.0	10	16%
Aug 2016	Aug 2019	Aug 2026	-	-	290,000	-	1.0	96.5	10	21%
Sep 2016	Sep 2019	Sep 2026	-	-	100,000	-	1.0	81.6	10	22%
Sep 2017	Sep 2020	Sep 2027	-	-	270,000	-	1.0	207.1	10	24%
May 2018	May 2021	May 2028	-	-	450,000	-	1.0	224.4	10	25%
May 2018	May 2023	May 2028	-	-	-	1,200,000	1.0	121.0	10	25%
Jun 2018	Jun 2021	Jun 2028	-	-	100,000	-	1.0	218.4	10	25%
30-Jun-18			**20,058**	**4,942**	**1,508,999**	**1,200,000**				

During the 6 months ended 30 June 2018, share options were issued under both the Performance Share Plan ('PSP') and the Enhanced Executive Incentive scheme ('EEI') which is an addendum to the PSP.

The fair values of the options granted under the PSP in 2018 were determined using the Binomial Option Pricing model that takes into account factors specific to the share incentive plan including performance conditions. In May and June 2018, 550,000 share options were granted with conditions of the company achieving earnings per share targets with a vesting period of 3 years. These performance conditions which are market conditions have been incorporated into the measurement by means of actuarial modelling.

The fair values of the options granted under the EEI in 2018 were determined using the Monte Carlo Option Valuation model that takes into account factors specific to the share incentive plan. In May

2018, 1.2 million share options were granted under the EEI with a condition of achieving share price hurdles with a vesting period of 5 years. These performance conditions which are market conditions have been incorporated into the measurement by means of actuarial modelling.

11. Critical accounting estimates and judgements

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements. No new significant judgements and key sources of estimation uncertainty were required in the application of IFRS 15 and IFRS 9.

- Ends -