21 March 2024

SCIENCE GROUP PLC

AUDITED RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports its audited results for the year ended 31 December 2023.

- Group revenue increased to £113.3 million (2022: £86.3 million), including contribution from TP Group acquired in January 2023
- Adjusted* operating profit increased to £20.5 million (2022: £17.6 million)
- Adjusted* basic earnings per share increased to 33.3 pence (2022: 29.4 pence)
- Dividend proposed to increase by 60% to 8.0 pence (2022: 5.0 pence), reflecting the significant increase in scale of the Group in recent years
- Share buy-back of £3.9 million in 2023 at an average price of 403 pence (2022: £1.3 million at average 408 pence). Programme anticipated to continue in 2024
- Year-end cash of £30.9 million with net funds of £18.0 million (2022: £43.6 million and £29.5 million, respectively) after completion of the TP Group acquisition and share buy-back. Additional undrawn credit facility of £25.0 million

Science Group plc

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* Alternative performance measures are provided in order to reflect the underlying financial performance of the Group. Refer to Note 1 for detail and explanation of the measures used.

Statement of Executive Chair

Science Group plc is an international science & technology consultancy and systems organisation. The Group's operating businesses are supported by a scalable corporate and shared services infrastructure and underpinned by a robust balance sheet including significant cash resources and freehold property assets.

Since 2010, the Group has established a strong operating track record, enhanced by a successful M&A strategy, delivering consistent performance through economic volatility, the pandemic and geo-political instability. In 2023, Science Group again demonstrated the effectiveness of its operating model in a challenging macro-environment and, whilst not immune to market dynamics, the Group has reported record underlying operating results.

Financial Summary

For the year ended 31 December 2023, Science Group reported revenue of £113.3 million (2022: £86.3 million). Adjusted operating profit increased to £20.5 million (2022: £17.6 million) and adjusted basic earnings per share increased to 33.3 pence (2022: 29.4 pence). Consistent with the Board's emphasis on cash flow, the Group does not capitalise R&D costs although certain investments, of between £1.0 million and £1.5 million, could have been considered appropriate for capitalisation.

Adjusting items, which are primarily non-cash, are detailed in the Finance Director's report and include one-off items related to the TP Group ('TPG') acquisition (completed in January 2023). Accordingly, the Group's reported statutory operating profit was £8.1 million for the year (2022: £11.7 million) and profit before tax was £7.6 million (2022: £11.1 million). The Group also incurred a higher tax charge, impacting statutory post-tax profit and basic earnings per share.

Science Group retains an asset-rich balance sheet, including significant cash resources and freehold property. Despite completing the Group's largest acquisition in January 2023 (cash outflow in the year of approximately £13.9 million) and a substantial share buy-back programme (cash outflow of £3.9 million), at 31 December 2023 Group cash was £30.9 million (2022: £43.6 million) and net funds were £18.0 million (2022: £29.5 million). The Group's term loan, which expires in 2026, was £13.0 million (2022: £14.1 million) in addition to which the Group has an undrawn £25 million Revolving Credit Facility ('RCF') which has been extended to December 2026.

Consultancy Services

The nucleus of Science Group is an international science and technology consultancy, providing technical/scientific advisory, product development and regulatory services to the Industrial, Defence & Aerospace, Medical and Consumer (including Food & Beverage) sectors. The deep technical and scientific expertise combined with specialist industry knowledge defines the strategy of Science Group's Consultancy operations.

The Consultancy Division comprises distinct practices, characterised by capability, geography or industry sector. Whilst operating autonomously, these practices have tangible synergies and collaboration is actively developed, supported by common incentive programmes, to realise the benefits of scale. For example, a substantial proportion of projects in 2023 addressed sustainability objectives of Science Group clients achieved through multi-disciplinary teams.

The completion of the acquisition of TPG in January 2023 expanded the Group's addressable market with the addition of Defence and Aerospace focused consultancy services ('TPGS'), while also opening up new opportunities for the Group's existing capabilities. Like most market sectors, Defence and Aerospace has high barriers to entry, requiring an understanding of the market characteristics, processes and dynamics.

For the year ended 31 December 2023, the Consultancy Services operations generated revenue of £81.3 million (2022: £60.7 million), including eleven months of TPGS producing an adjusted operating profit increase to £20.4 million (2022: £16.2 million). The established operations within the Division deliver consistently high margins, reflecting the market positioning of Science Group and an efficient operating model, but the margin overall in 2023 reduced due to the currently lower profitability of TPGS.

While the TPGS integration increased the proportion of Consultancy revenue derived from the UK, the Consultancy Division remains internationally diversified with around 30% of revenues invoiced in US dollars in addition to other currencies. Given the proportion of revenue invoiced in US dollars, against a primarily Sterling cost base, the Board initiated a currency hedging option for a proportion of the Consultancy cash flows in 2023 and a similar instrument has been adopted for 2024.

Systems Businesses

The Group has two systems businesses, both of which have leading positions in their niche markets. These 'satellites' operate independently but are supported by the Group's corporate and shared services infrastructure and have access to the Consultancy Division's science, technology and engineering expertise providing R&D breadth and depth far beyond what would typically be available to operations of their scale. In aggregate, for the year ended 31 December 2023, the Systems businesses reported revenue of £31.2 million (2022: £25.0 million) and an adjusted operating profit of £2.2 million (2022: £3.9 million).

<u>Submarine Atmosphere Management Systems</u> (CMS2) was part of TP Group and required considerable attention following Science Group's initial investment in 2021. This focus has continued after the acquisition was completed in 2023, including strengthening management, improving operational/commercial process/governance and R&D support. While servicing an international client base, the systems are of a highly bespoke nature and the business remains dependent on the UK defence market. For the eleven months ended 31 December 2023, CMS2 reported revenue of £21.3 million (2022: £nil) of which added-value and services contribute around 60%. The adjusted operating margin in 2023 was higher than anticipated, benefitting from some one-off effects.

<u>Audio Chips and Modules</u> (Frontier) is the global market leader in DAB/DAB+/Smart Radio chips and modules and is developing new-technology connected audio products. In line with the broader consumer electronics market, the economic downturn, compounded by overstocking in the distribution channel related to the post-Covid supply chain imbalances, impacted the Frontier business in 2023. As a result, revenue reduced to £10.0 million (2022: £25.0 million) with a small operating loss, although this included significant investment in new product development, all of which was expensed in the year with no capitalisation of R&D. Despite the challenging market conditions, Frontier is believed to have retained its substantial market share and premium positioning and the Board anticipates the business will see a recovery in 2024,

benefitting from wider market/economic dynamics and the operational cost reduction actions undertaken during the past year.

Corporate

The corporate function is responsible for the strategic development and governance of Science Group. The underlying costs of the corporate function were static at £2.6 million (2022: £2.6 million). Total corporate costs additionally include one-off items associated with acquisitions and therefore are reported as £8.1 million (2022: £3.2 million). These primarily non-cash adjusting items are detailed in the Finance Director's report.

During the year, the Company repurchased 961,385 shares at a total cost of £3.9 million (2022: £1.3 million), equivalent to an average price of 403 pence per share. At 31 December 2023, shares in issue (excluding treasury shares held of 0.7 million) were 45.5 million (2022: 45.4 million excluding treasury shares held of 0.7 million). The Board anticipates continuing the buy-back programme in 2024, as appropriate.

Reflecting the significant increase in the scale of Science Group in recent years, together with the track record of performance, the Board is recommending increasing the dividend by 60% to 8.0 pence per share (2022: 5.0 pence per share). Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be payable on 19 July 2024 to shareholders on the register at the close of business on 21 June 2024.

Science Group owns two freehold properties, Harston Mill, near Cambridge, and Great Burgh, near Epsom, the primary function of which is to host the Group's operating businesses. The Group charges market rents to the operating businesses and lets out part of the Harston Mill site to third parties. For the year ended 31 December 2023, the rental and associated services income derived from this activity was £4.2 million (2022: £4.1 million), of which around 20% is generated from third party tenants. Intra-group rental charges are eliminated on Group consolidation. The last independent valuation of the freehold properties (December 2023) indicated an aggregate value in the range of £16.9 million to £31.6 million, although for consistency the properties are held on the balance sheet on a cost basis of £20.6 million (2022: £20.8 million).

Environmental Reporting

In 2023 the Group undertook Streamlined Energy and Carbon Reporting (SECR) for the first time and is reporting Scope 1, 2 and mandatory Scope 3 emissions from its UK operations. The Group is also disclosing climate-related risk in line with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. For the latter initiative, the Group worked with a specialist third-party consultancy, and concluded that the Group's exposure to climate-related risk is low.

Summary and Outlook

In summary, Science Group has delivered another solid performance in 2023. This resilience has been achieved against the backdrop of significant geopolitical and economic instability which the Board anticipates will persist through the first half of 2024.

The acquisition of TP Group materially increased the scale and expanded the addressable market of Science Group. The contribution made by the TP Group businesses in 2023 indicates that the acquisition remains on trajectory to meet the Group's acquisition objectives.

For over a decade, Science Group has demonstrated a consistent operating track record, enhanced by a successful M&A programme, delivering a substantial return for shareholders. While the Group has the ambition and capability to accelerate the strategy, the relative valuation of the company against both UK and international comparators may prove a material constraint. The Board will therefore consider all options to address this disparity and deliver value to shareholders.

Martyn Ratcliffe

Executive Chair

Finance Director's Report

Overview of Results

In the year ended 31 December 2023, the Group generated revenue of £113.3 million (2022: £86.3 million). Revenue from the Consultancy Services Segment, that is revenue derived from consultancy services and materials recharged on projects, increased to £81.3 million (2022: £60.7 million) while Systems revenue generated by the CMS2 Business was £21.3 million (2022: £nil) and Systems revenue generated by the Frontier Business was £10.0 million (2022: £25.0 million). Revenue generated by freehold properties, comprising property and associated services income derived from space let to third parties in the Harston Mill facility, was £0.8 million (2022: £0.7 million).

Adjusted operating profit for the Group increased to £20.5 million (2022: £17.6 million). There were one-off adjusting items related to the TP Group plc ('TPG') acquisition, which completed on 26 January 2023, totalling £5.5 million (2022: £0.5 million). The majority of these were non-cash and included items such as: share of loss for the period held as an associate; remeasurement of share valuation at point of acquisition (in accordance with IFRS 3 Business Combinations); professional fees; and integration/restructuring. In addition, and driven by the acquisition of TPG, amortisation of acquisition-related intangible assets increased to £4.9 million (2022: £3.8 million). Share-based payment charges for the year totalled £2.0 million (2022: £1.6 million), which resulted in statutory profit before tax of £7.6 million (2022: £11.1 million). After net finance costs of £0.5 million (2022: £0.6 million) and a tax charge of £2.1 million (2022: £0.5 million), statutory profit after tax was £5.5 million (2022: £10.6 million). Statutory basic earnings per share was 12.1 pence (2022: 23.2 pence per share).

Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding acquisition integration costs, amortisation of acquisition related intangible assets, 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.

TP Group plc ('TPG')

Prior to 2023, through on-market purchases of shares, the Group had acquired an associate shareholding in TPG. A full acquisition was completed through a court-approved Scheme of Arrangement on 26 January 2023, at which point TPG became a 100% subsidiary of the Group.
As well as providing an entry into the defence sector, the acquisition of TPG has significantly increased the scale of Science Group. In 2023, the TPG trading entities contributed £44.9 million towards Group revenue.

Foreign Exchange

The acquisition of TPG, where revenue is denominated in Sterling, has reduced the Group's overall exposure to foreign exchange, however, there remains a reasonable proportion of the Group's revenue denominated in currencies other than Sterling. In 2023, £34.6 million of the Group's operating business revenue was denominated in US Dollars (2022: £54.7 million), including all of Frontier's revenue. In addition, £3.9 million of the Group operating business revenue was denominated in Euros (2022: £2.7 million). The average exchange rates during 2023 were 1.24 for US Dollars and 1.15 for Euros (2022: 1.24 and 1.18 respectively).

In 2022, to provide greater forward visibility around foreign exchange, the Group acquired a currency exchange instrument to cap the Sterling:US Dollar rate in relation to certain consultancy cash flows through to the end of 2023. The instrument applied to $1.25 million per month at an exchange rate of $1.20/£1, whilst still allowing the business to benefit from lower spot exchange rates if available. A similar no obligation cap has been put in place through 2024 for $1.0 million per month at an exchange rate of $1.25/£1.

Taxation

The tax charge for the year was £2.1 million (2022: £0.5 million). The increase is partly explained by tax at a higher rate, with the UK corporation tax rate increasing from 19% to 25% in April 2023. However, as a comparative, the 2022 tax charge was exceptionally low due to deferred tax and some over accrual in 2021. At 31 December 2023, Science Group had £29.3 million (2022: £26.7 million) of tax losses, the largest components of which related to Frontier (£19.2 million (2022: £17.1 million)) and TPG (£5.9 million (2022: £nil)). £9.1 million (2022: £8.7 million) of the Frontier losses, and £5.4 million (2022: £nil) of the TPG losses are recognised as deferred tax assets which are anticipated to be used to offset future taxable profits. The balances of £10.1 million (2022: £8.4 million) of the Frontier losses and £0.5 million (2022: £nil) of the TPG losses have not been recognised as deferred tax assets due to the uncertainty in the timing of utilisation of these losses. Aside from these amounts, the Group has other tax losses of £4.2 million (2022: £9.6 million) unrecognised as a deferred tax asset due to the low probability that these losses will be utilised.

Financing and Cash

Cash flow from operating activities (excluding Client Registration Funds) was £8.9 million (2022: £15.3 million). Reported cash from operating activities in accordance with IFRS was £7.9 million (2022: £15.3 million). The difference in these two metrics relates to the fact that one of the Group's businesses, TSG, processes regulatory registration payments on behalf of clients. The alternative performance measure, by excluding Client Registration Funds, reflects the Group's available cash position and cash flow.

The Group's term loan with Lloyds Bank plc, secured on the Group's freehold properties, is a 10-year fixed term loan expiring in 2026. Phased interest rate swaps hedge the loan resulting in a fixed effective interest rate of 3.5%, comprising: a margin over the Sterling Overnight Index Average ('SONIA'); the cost of the loan arrangement fee; and, the cost of the swap instruments. The Group has adopted hedge accounting for the interest rate swaps related to the bank loan under IFRS 9, Financial Instruments, and the change in fair value of the interest rate swaps was recognised in Other Comprehensive Income (2023: a loss of £0.5 million, 2022: a gain of £1.3 million).

In December 2021, in addition to the term loan, the Group signed a £25.0 million revolving credit facility ('RCF') with Lloyds Bank plc in order to provide additional capital resources to enable the execution of the Group's acquisition strategy. The RCF is for up to £25.0 million, with an additional £5.0 million accordion option. The agreement was initially for a 4-year term with an optional 1-year extension which was activated in December 2023, so the term now runs to December 2026. The margin on drawn sums is 3.3% over SONIA and is 1.1% per annum on undrawn amounts. Drawn amounts are secured on the Group's assets by debentures. At 31 December 2023, the RCF remained undrawn.

The RCF has two financial covenants with which the Group needs to comply if the facility is drawn: (i) the Group's net leverage, as defined as the net debt divided by the rolling 12 month EBITDA, should not exceed 2.5; and (ii) the Group's interest cover, as defined as the rolling 12 month EBITDA divided by the rolling interest payments on all borrowings, should not be less than 4.0. Reporting is on a 6 monthly basis unless the net leverage exceeds 2, in which case reporting moves to quarterly until net leverage returns to below 2 again. For the term of the RCF, the previous covenants for the term loan are superseded by the covenants of the RCF and will not apply.

The Group cash balance (excluding Client Registration Funds) at 31 December 2023 was £30.9 million (2022: £43.6 million) and net funds were £18.0 million (2022: £29.5 million). Client Registration Funds of £1.9 million (2022: £2.9 million) were held at the year end. Working capital was partly impacted by the TPG acquisition, together with some one-off project prepayments received at the end of 2022, which have since normalised. Working capital management during the year continued to be a focus with debtor days of 40 days at 31 December 2023 (2022: 43 days) and inventory days of 121 days (2022: 197 days).

Share Capital

At 31 December 2023, the Company had 45,458,972 ordinary shares in issue (2022: 45,436,823) and the Company held an additional 726,902 shares in treasury (2022: 749,051). Of the ordinary shares in issue, no shares are held by the Frontier Employee Benefit Trust (2022: 34,800). The voting rights in the Company at 31 December 2023 are 45,458,972 (2022: 45,402,023). In this report, all references to measures relative to the number of shares in issue exclude shares held in treasury unless explicitly stated to the contrary.

Jon Brett
Finance Director

Consolidated Income Statement
For the year ended 31 December 2023

	Note	**2023 £000**	2022 £000
Revenue	2	**113,341**	86,301
Direct operating expenses		**(67,090)**	(47,947)
Sales and marketing expenses		**(9,206)**	(9,754)
Administrative expenses		**(28,731)**	(17,504)
Share of (loss)/profit of equity accounted investment		**(169)**	602
Adjusted operating profit	2	**20,535**	17,602
Acquisition integration costs		**(518)**	(1,128)
Amortisation of acquisition related intangible assets	7	**(4,944)**	(3,766)
Loss on remeasurement of equity-accounted investment		**(4,762)**	-
Share-based payment charge		**(1,997)**	(1,612)
Share of (loss)/profit of equity-accounted investment		**(169)**	602
Operating profit		**8,145**	11,698
Finance income		**679**	375
Finance costs		**(1,205)**	(977)
Profit before tax		**7,619**	11,096
Tax charge (net of R&D tax credit of £517,000 (2022: £530,000))	3	**(2,095)**	(541)
Profit for the year		**5,524**	10,555
Earnings per share			
Earnings per share (basic)	5	**12.1p**	23.2p
Earnings per share (diluted)	5	**12.0p**	22.6p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2023

	2023 **£000**	2022 £000
Profit for the year attributable to:		
Equity holders of the parent	**5,524**	10,555
Profit for the year	**5,524**	10,555
Other comprehensive income items that will or may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(848)**	2,372
Fair value (loss)/gain on financial instruments	**(441)**	1,499
Deferred tax credit/(charge) on financial instruments	**147**	(414)
Other comprehensive (expense)/income for the year	**(1,142)**	3,457
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**4,382**	14,012
Total comprehensive income for the year	**4,382**	14,012

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2023

	Share capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2022	**462**	**26,834**	**(1,242)**	**10,343**	**(758)**	**74**	**30,579**	**66,292**
Contributions and distributions:								
Purchase of own shares	-	-	(1,321)	-	-	-	-	**(1,321)**
Issue of shares out of treasury	-	-	370	-	-	-	(369)	**1**
Dividends paid (Note 6)	-	-	-	-	-	-	(2,270)	**(2,270)**
Share-based payment charge	-	-	-	-	-	-	1,612	**1,612**
Deferred tax charge on share-based payment transactions	-	-	-	-	-	-	(127)	**(127)**
Transactions with owners	**-**	**-**	**(951)**	**-**	**-**	**-**	**(1,154)**	**(2,105)**
Profit for the year	-	-	-	-	-	-	**10,555**	**10,555**
Other comprehensive income items that will or maybe reclassed to profit or loss:								
Fair value gain on financial instruments	-	-	-	-	-	1,499	-	**1,499**
Exchange differences on translating foreign operations	-	-	-	-	2,372	-	-	**2,372**
Deferred tax charge on financial instruments	-	-	-	-	-	(414)	-	**(414)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2,372**	**1,085**	**10,555**	**14,012**
Balance at 31 December 2022	**462**	**26,834**	**(2,193)**	**10,343**	**1,614**	**1,159**	**39,980**	**78,199**

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2023

	Share capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2023	**462**	**26,834**	**(2,193)**	**10,343**	**1,614**	**1,159**	**39,980**	**78,199**
Contributions and distributions:								
Purchase of own shares	-	-	(3,875)	-	-	-	-	**(3,875)**
Issue of shares out of treasury	-	-	3,138	-	-	-	(3,128)	**10**
Dividends paid (Note 6)	-	-	-	-	-	-	(2,259)	**(2,259)**
Share-based payment charge	-	-	-	-	-	-	1,997	**1,997**
Deferred tax charge on share-based payment transactions	-	-	-	-	-	-	(467)	**(467)**
Transactions with owners	**-**	**-**	**(737)**	**-**	**-**	**-**	**(3,857)**	**(4,594)**
Profit for the year	-	-	-	-	-	-	**5,524**	**5,524**
Other comprehensive income items that will or maybe reclassed to profit or loss:								
Fair value loss on financial instruments	-	-	-	-	-	(441)	-	**(441)**
Exchange differences on translating foreign operations	-	-	-	-	(848)	-	-	**(848)**
Deferred tax charge on financial instruments	-	-	-	-	-	147	-	**147**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(848)**	**(294)**	**5,524**	**4,382**
Balance at 31 December 2023	**462**	**26,834**	**(2,930)**	**10,343**	**766**	**865**	**41,647**	**77,987**

Consolidated Balance Sheet
At 31 December 2023

	Note	**2023 £000**	2022 £000
Assets			
Non-current assets			
Acquisition related intangible assets	7	**25,845**	10,815
Goodwill	7	**18,878**	14,975
Property, plant and equipment		**25,477**	23,867
Investments		**-**	10,054
Derivative financial instruments		**886**	1,417
Deferred tax assets	4	**2,071**	2,176
		73,157	63,304
Current assets			
Inventories	8	**1,332**	2,477
Trade and other receivables	9	**23,315**	12,992
Current tax assets		**1,516**	1,607
Derivative financial instruments		**301**	384
Cash and cash equivalents – Group cash	10	**30,949**	43,645
Cash and cash equivalents – Client registration funds	10	**1,881**	2,867
		59,294	63,972
Total assets		**132,451**	127,276
Liabilities			
Current liabilities			
Trade and other payables	11	**32,041**	31,546
Current tax liabilities		**379**	331
Provisions	12	**1,481**	849
Borrowings	14	**1,200**	1,200
Lease liabilities		**626**	720
		35,727	34,646
Non-current liabilities			
Provisions	12	**889**	248
Borrowings	14	**11,756**	12,939
Lease liabilities		**3,319**	1,162
Deferred tax liabilities	4	**2,773**	82
		18,737	14,431
Total liabilities		**54,464**	49,077
Net assets		**77,987**	78,199
Shareholders' equity			
Share capital	13	**462**	462
Share premium		**26,834**	26,834
Treasury shares		**(2,930)**	(2,193)
Merger reserve		**10,343**	10,343
Translation reserve		**766**	1,614
Cash flow hedge reserve		**865**	1,159
Retained earnings		**41,647**	39,980
Total equity		**77,987**	78,199

Consolidated Statement of Cash Flows
For the year ended 31 December 2023

	Note	**2023 £000**	2022 £000
Profit before income tax		**7,619**	11,096
Adjustments for:			
Share of loss/(profit) of equity accounted investment		**169**	(602)
Loss on remeasurement of equity-accounted investee		**4,762**	-
Amortisation of acquisition related intangible assets	7	**4,944**	3,766
Depreciation of property, plant and equipment		**694**	655
Reversal of impairment of right-of-use assets		**-**	(215)
Depreciation of right-of-use assets		**1,053**	827
Bank charges on derivative financial instruments		**422**	359
Net interest cost		**526**	602
Share-based payment charge		**1,997**	1,612
Decrease/(increase) in inventories		**1,222**	(23)
(Increase)/decrease in receivables		**(2,019)**	(680)
Decrease in payables representing client registration funds		**(986)**	(7)
(Decrease)/increase in payables excluding balances representing client registration funds*		**(10,760)**	1,235
Increase/(decrease) in provisions		**662**	(263)
Cash generated from operations		**10,305**	18,362
Interest paid		**(1,106)**	(808)
UK corporation tax paid		**(962)**	(1,017)
Foreign corporation tax paid		**(325)**	(1,266)
Cash flows from operating activities		**7,912**	15,271
Interest received		**583**	271
Purchase of property, plant and equipment		**(80)**	(92)
Purchase of interest in associated company		**-**	(213)
Purchase of subsidiary undertakings, net of cash and borrowing acquired	15	**(13,923)**	-
Sale of subsidiary, net of cash sold		**638**	-
Cash flows used in investing activities		**(12,782)**	(34)
Issue of shares out of treasury		**10**	1
Repurchase of own shares		**(3,875)**	(1,321)
Dividends paid		**(2,259)**	(2,270)
Purchase of derivative financial instruments		**(250)**	(531)
Repayment of term loan	14	**(1,200)**	(1,200)
Payment of lease liabilities		**(912)**	(1,135)
Cash flows from financing activities		**(8,486)**	(6,456)
(Decrease)/increase in cash and cash equivalents in the year		**(13,356)**	8,781
Cash and cash equivalents at the beginning of the year		**46,512**	37,189
Exchange (loss)/gain on cash		**(326)**	542
Cash and cash equivalents at the end of the year	10	**32,830**	46,512

*Includes transaction costs associated with the acquisition of TP Group plc.

Cash and cash equivalents are analysed as follows:

	Note	**2023 £000**	2022 £000
Cash and cash equivalents – Group cash	10	**30,949**	43,645
Cash and cash equivalents – Client registration funds	10	**1,881**	2,867
		32,830	46,512

Extracts from notes to the financial statements

1. General Information

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international science & technology consultancy and systems organisation, supported by a strong balance sheet.

The Group and Company Financial Statements of Science Group plc were prepared under the International Financial Reporting Standards ('IFRS') as adopted by the UK in conformity with the requirements of the Companies Act 2006 and have been audited by Grant Thornton UK 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 Alternative Investment Market of the London Stock Exchange (SAG.L). The value of Science Group plc shares, as quoted on the London Stock Exchange on 31 December 2023, was 392.0 pence per share (31 December 2022: 395.0 pence per share).

Alternative performance measures

The Group uses alternative non-Generally Accepted Accounting Principles performance measures of 'adjusted operating profit', 'adjusted earnings per share' and 'net funds' which are not defined within IFRS. These are explained as follows:

(a) Adjusted Operating Profit

The Group calculates this measure by adjusting to exclude certain items from operating profit namely: amortisation of acquisition related intangible assets, acquisition integration costs, share-based payment charges and other specified items that meet the criteria to be adjusted.

The criteria for the adjusted items in the calculation of adjusted operating profit is operating income or expenses that are material and either arise from an irregular and significant event or the income/cost is recognised in a pattern that is unrelated to the resulting operational performance. Materiality is defined as an amount which, to a user, would influence the decision making. Acquisition integration costs include all costs incurred directly related to the restructuring, relocation and integration of acquired businesses. Adjustments for share-based payment charges occur because: once the cost has been calculated, the Directors cannot influence the share-based payment charge incurred in subsequent years; it is understood that many investors/analysts exclude the cost from their valuation analysis of the business; and the value of the share option to the employee differs considerably in value and timing from the actual cash cost to the Group.

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

(b) Adjusted Earnings Per Share

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 for the year which is 24.1% (2022: 21.4%) which results in a comparable tax charge year on year.

(c) Net Funds

The Group calculates this measure as the net of cash and cash equivalents – Group cash and Borrowings. Client registration funds are excluded from this calculation because these monies are for the purpose of payment of registration fees to regulatory bodies. This cash is separately identified for reporting purposes and is unrestricted. This measure is calculated as follows:

	Note	**2023 £000**	2022 £000
Cash and cash equivalents – Group cash	10	**30,949**	43,645
Borrowings	14	**(12,956)**	(14,139)
Net funds		**17,993**	29,506

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 represent the Group's cash available for day-to-day operations and investments. As such, the Board considers these measures to enhance shareholders' understanding of the Group results and should be considered alongside the IFRS measures.

Going concern
The Directors have undertaken a comprehensive going concern review. In adopting the going concern basis for preparing these Consolidated Financial Statements, the Directors have undertaken a review of the Group's cash flows forecasts and available liquidity, along with consideration of the principal risks and uncertainties over an 18-month period to September 2025. Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have considered two forecasts in the assessment of going concern, along with a likelihood assessment of these forecasts being:

- Base case, which reflects the Directors' current expectations of future trading; and
- Severe but plausible downside forecast which envisages a 'stress' or 'downside' situation.

After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and stressed downside, the Directors consider that the Group has sufficient liquidity to continue in operational existence for a period of at least 18 months form the date of this report and are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.
In reaching these conclusions the Directors noted that the Group had a cash balance at 31 December 2023 of £30.9 million (excluding client registration funds but including short- term investments) and net funds of £18.0 million, together with the undrawn Revolving Credit Facility ('RCF') of £25.0 million.

2. Segment Information
The Group's segmental reporting shows the performance of the operating businesses separately from the value generated by the Group's significant freehold property assets and the Corporate costs. The Consultancy Services Segment consists of three Practices: (i) Research & Development, (ii) Regulatory & Compliance and (iii) Defence & Aerospace. Financial information is provided to the Chief Operating Decision Makers ('CODMs') in line with this structure: the Consultancy Services Segment; the two Systems Businesses (Submarine Atmosphere Management and Audio Chips and Modules); the Freehold Properties and Corporate costs.

The Consultancy Services Practices are aggregated into one Consultancy Services Segment because the Practices and the services they provide have similar economic characteristics. This aggregation does not impact the user's ability to understand the entity's performance, its prospects for future cash flows or the user's decisions about the entity as a whole as it is a fair representation of the performance of each service line.

Consultancy Services revenue includes all consultancy fees and other revenue includes recharged materials and expenses relating directly to Consultancy Services activities. Systems - Submarine Atmosphere Management revenue includes the development, manufacture and support of specialist systems for submarine atmosphere management, used in UK and International naval defence markets. Systems - Audio Chips and Modules revenue includes sales of chips and modules which are incorporated into digital radios. The Freehold Properties Segment includes the results for the two freehold properties owned by the Group. Income is derived from third party tenants from the Harston Mill site and from internal businesses which have been charged fees at an arm's length market rental rate for their utilised property space and associated costs. Corporate costs include PLC/Group costs.

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

Consultancy Services	**2023 £000**	2022 £000
Services revenue	**79,729**	58,242
Other	**1,553**	2,423
Revenue	**81,282**	60,665
Adjusted operating profit	**20,355**	16,200
Amortisation of acquisition related intangible assets	**(1,918)**	(1,463)
Share-based payment charge	**(1,557)**	(1,249)
Operating profit	**16,880**	13,488

Systems – Submarine Atmosphere Management	**2023 £000**	2022 £000
Systems revenue – Submarine Atmosphere Management	**21,265**	-
Revenue	**21,265**	-
Adjusted operating profit	**3,619**	-
Amortisation of acquisition related intangible assets	**(752)**	-
Share-based payment charge	**(77)**	-
Operating profit	**2,790**	-

Systems – Audio Chips and Modules	**2023 £000**	2022 £000
Systems revenue – Audio Chips and Modules	**9,975**	24,979
Revenue	**9,975**	24,979
Adjusted operating (loss)/profit	**(1,427)**	3,869
Amortisation of acquisition related intangible assets	**(2,274)**	(2,303)
Share-based payment charge	**(229)**	(265)
Operating (loss)/profit	**(3,930)**	1,301

Freehold Properties	**2023 £000**	2022 £000
Inter-company property income	**3,398**	3,436
Third party property income	**819**	657
Revenue	**4,217**	4,093
Adjusted operating profit	**597**	132
Share-based payment charge	**(44)**	(42)
Operating profit	**553**	90

Corporate	2023 £000	2022 £000
Adjusted operating loss	**(2,609)**	(2,599)
Acquisition integration costs	**(518)**	(1,128)
Loss on remeasurement of equity-accounted investment	**(4,762)**	-
Share-based payment charge	**(90)**	(56)
Share of (loss)/profit of equity accounted investment	**(169)**	602
Operating loss	**(8,148)**	(3,181)

Group	2023 £000	2022 £000
Consultancy Services revenue	**79,729**	58,242
Systems revenue - Submarine Atmosphere Management	**21,265**	-
Systems revenue - Audio Chips and Modules	**9,975**	24,979
Third party property income	**819**	657
Other	**1,553**	2,423
Revenue	**113,341**	86,301
Adjusted operating profit	**20,535**	17,602
Acquisition integration costs	**(518)**	(1,128)
Amortisation of acquisition related intangible assets	**(4,944)**	(3,766)
Loss on remeasurement of equity-accounted investment	**(4,762)**	-
Share-based payment charge	**(1,997)**	(1,612)
Share of (loss)/profit of equity accounted investment	**(169)**	602
Operating profit	**8,145**	11,698
Net finance costs	**(526)**	(602)
Profit before income tax	**7,619**	11,096
Income tax charge	**(2,095)**	(541)
Profit for the period	**5,524**	10,555

Geographical and currency revenue analysis

Primary geographic markets	**2023 £000**	2022 £000
United Kingdom	**52,522**	13,240
Other European Countries	**14,202**	10,621
North America	**29,056**	35,878
Asia	**16,641**	26,047
Other	**920**	515
	113,341	86,301

Currency	**2023 £000**	2022 £000
US Dollar	**34,642**	54,663
Euro	**3,876**	2,669
Sterling	**74,823**	28,969
	113,341	86,301

3. Income Tax

The tax charge comprises:

Year ended 31 December	Note	**2023 £000**	2022 £000
Current taxation		**(3,056)**	(2,666)
Current taxation – adjustment in respect of prior years		**84**	539
Deferred taxation	4	**317**	643
Deferred taxation – adjustment in respect of prior years		**43**	413
R&D tax credit		**517**	530
		(2,095)	(541)

The adjustments in prior years are due to estimation differences related to the tax charge.

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/(losses) of the consolidated companies of 24.1% (2022: 21.4%) as follows:

	2023 £000	2022 £000
Profit before tax	**7,619**	11,096
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**(1,836)**	(2,374)
Expenses not deductible for tax purposes	**(1,589)**	(389)
Adjustment in respect of prior years – current tax	**84**	539
Adjustment in respect of prior years – deferred tax	**43**	413
Movement in deferred tax due to change in tax rate	**-**	(35)
Share scheme movements	**554**	281
Utilisation of losses previously not recognized	**241**	569
Tax losses not recognized	**(71)**	(190)
Share of (loss)/profit of equity accounted investment	**(38)**	115
R&D tax credit	**517**	530
Tax charge	**(2,095)**	(541)

The Group claims Research and Development tax credits under the R&D expenditure credit scheme. In the current year, the Group recognised a tax credit of £0.5 million (2022: £0.5 million). The Group performed a reasonable estimate of all amounts involved to determine the R&D tax credits to be recognised in the period to which it relates.

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	**Tax losses**	**Share-based payment**	**Acquisition related intangible assets**	**Other temporary differences**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2022	(46)	2,120	1,389	(2,205)	193	1,451
(Charged)/credited to the Income Statement	(131)	(190)	506	588	(130)	643
Credited to the Income Statement (adjustment in respect of prior year)	129	-	-	-	284	413
Charged to Equity	-	-	(127)	-	(414)	(541)
Effect of movements in exchange rates	76	246	-	(194)	-	128
At 31 December 2022	28	2,176	1,768	(1,811)	(67)	2,094
Credited/(charged) to the Income Statement	47	(678)	66	985	(103)	317
Deferred taxation relating to acquisitions	4	2,259	-	(5,108)	63	(2,782)
(Charged)/credited to the income statement (adjustment in respect of prior year)	(8)	-	(51)	-	102	43
(Charged)/credited to Equity	-	-	(486)	-	147	(339)
Effect of movements in exchange rates	(5)	(115)	-	85	-	(35)
At 31 December 2023	**66**	**3,642**	**1,297**	**(5,849)**	**142**	**(702)**

	2023	2022
	£000	£000
Deferred tax assets	**2,071**	2,176
Deferred tax liabilities	**(2,773)**	(82)
Net deferred tax (liabilities)/assets	**(702)**	2,094

At 31 December 2023, Science Group had £29.3 million (2022: £26.7 million) of tax losses, the largest components of which related to Frontier (£19.2 million (2022: £17.1 million)) and TP Group (£5.9 million (2022: £nil)). £9.1 million (2022: £8.7 million) of the Frontier losses, and £5.4 million (2022: £nil) of the TP Group losses are recognised as deferred tax assets which are anticipated to be used to offset future taxable profits. The balances of £10.1 million (2022: £8.4 million) of the Frontier losses and £0.5 million (2022: £nil) of the TP Group losses have not been recognised as deferred tax assets due to the uncertainty in the timing of utilisation of these losses. Aside from these amounts, the Group has other tax losses of £4.2 million (2022: £9.6 million) unrecognised as a deferred tax asset due to the low probability that these losses will be utilised.

5. Earnings Per Share

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

	2023			2022		
	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	**5,524**	**45,553,584**	**12.1**	10,555	45,525,568	23.2
Effect of dilutive potential ordinary shares: share options	**-**	**638,394**	**(0.1)**	-	1,268,082	(0.6)
Diluted earnings per ordinary share	**5,524**	**46,191,978**	**12.0**	10,555	46,793,650	22.6

Only the share options granted are dilutive.

The calculation of adjusted earnings per share is as follows:

	2023			2022		
	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
Adjusted basic earnings per ordinary share	**15,187**	**45,553,584**	**33.3**	13,362	45,525,568	29.4
Effect of dilutive potential ordinary shares: share options	**-**	**638,394**	**(0.4)**	-	1,268,082	(0.8)
Adjusted diluted earnings per ordinary share	**15,187**	**46,191,978**	**32.9**	13,362	46,793,650	28.6

*Calculation of adjusted profit after tax:

	2023 £000	2022 £000
Adjusted operating profit	**20,535**	17,602
Finance income	**679**	375
Finance costs	**(1,205)**	(977)
Adjusted profit before tax	**20,009**	17,000
Tax charge at the blended corporation tax rate across the various jurisdictions 24.1% (2022: 21.4%)	**(4,822)**	(3,638)
Adjusted profit after tax	**15,187**	13,362

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 final dividend for 2022 of £2.3 million was paid in June 2023 (2022: £2.3 million paid for 2021 in June 2022).

The Board has proposed a final dividend for 2023 of 8.0 pence per share (2022: 5.0 pence per share). The dividend is subject to approval by shareholders at the next Annual General Meeting and the expected cost of £3.6 million has not been included as a liability as at 31 December 2023.

7. Intangible Assets

	Technical know-how and intellectual property rights	Customer relationships	Goodwill	Total
	£000	**£000**	**£000**	**£000**
Cost				
At 1 January 2022	12,306	13,915	16,585	42,806
Effect of movement in exchange rates	1,350	428	615	2,393
At 31 December 2022	13,656	14,343	17,200	45,199
Acquisitions through business combination	3,346	17,084	4,222	24,652
Effect of movement in exchange rates	(679)	(211)	(319)	(1,209)
At 31 December 2023	**16,323**	**31,216**	**21,103**	**68,642**
Accumulated amortisation				
At 1 January 2022	2,464	10,391	-	12,855
Amortisation charged in year	2,172	1,594	-	3,766
Effect of movement in exchange rates	335	221	-	556
At 31 December 2022	4,971	12,206	-	17,177
Amortisation charged in year	2,349	2,595	-	4,944
Effect of movement in exchange rates	(296)	(138)	-	(434)
At 31 December 2023	**7,024**	**14,663**	**-**	**21,687**
Accumulated impairment				
At 1 January, 31 December 2022 and 31 December 2023	-	**7**	**2,225**	**2,232**
Carrying amount				
At 31 December 2022	8,685	2,130	14,975	25,790
At 31 December 2023	**9,299**	**16,546**	**18,878**	**44,723**

Goodwill and acquisition related intangible assets recognised arose from acquisitions during 2013, 2015, 2017, 2019, 2021 and 2023. The discount rates used for goodwill impairment reviews and the carrying amount of goodwill is allocated as follows:

	2023		2022	
	Pre-tax discount rate	**£000**	Pre-tax discount rate	£000
R&D Consultancy	**17.8%**	**3,383**	16.8%	3,383
Leatherhead Research	**18.1%**	**650**	16.9%	650
TSG Americas	**17.5%**	**2,732**	15.2%	2,874
TSG Europe	**17.9%**	**4,546**	16.6%	4,546
Frontier Smart Technologies Group	**20.2%**	**3,345**	17.5%	3,522
CMS2	**16.1%**	**1,576**	-	-
TPG Services	**17.8%**	**2,646**	-	-
		18,878		14,975

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 Cash Generating Units ('CGUs') are determined from value in use. (CGUs are a description of a cash-generating unit (such as a whether it is a product line, a business operation or a reportable segment as defined in IFRS8)). The key assumptions for the value in use calculations are those regarding the discount rates and growth or decline rates of revenue.

The Group prepares the cash flow forecasts derived from the most recent annual financial plan approved by the Board and extrapolates cash flows for the following four years based on forecast rates of growth or decline in revenue by the CGU. Beyond 5 years, cash flows were extrapolated using a terminal growth rate of 2.5% based on historic average inflation rates.

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. Inventories

	2023 £000	2022 £000
Raw materials	**174**	263
Work in progress	**743**	485
Finished goods	**415**	1,729
	1,332	2,477

9. Trade and Other Receivables

	2023 £000	2022 £000
Current assets:		
Trade receivables	**13,899**	9,983
Provision for impairment	**(100)**	(207)
Trade receivables – net	**13,799**	9,776
Amounts recoverable on contracts	**6,708**	1,152
Other receivables	**161**	90
Other taxation and social security	**768**	-
VAT	**222**	215
Prepayments	**1,657**	1,759
	23,315	12,992

All amounts disclosed above, except for prepayments, are receivable within 90 days.

10. Cash and Cash Equivalents

	2023 £000	2022 £000
Cash and cash equivalents – Group cash	**30,949**	43,645
Cash and cash equivalents – Client registration funds	**1,881**	2,867
	32,830	46,512

The Group receives cash from clients, primarily in North America, for the purpose of payment of registration fees to regulatory bodies. This cash is separately identified for reporting purposes and is unrestricted.

A balance of £10.0 million (2022: £nil) was held in two fixed term deposit accounts of £5.0 million each, with maturity dates of 31 January 2024 and 15 March 2024.

11. Trade and Other Payables

	2023 £000	2022 £000
Current liabilities:		
Contract liabilities	**17,550**	19,679
Trade payables	**4,106**	1,689
Other taxation and social security	**1,730**	1,460
VAT	**998**	250
Accruals	**7,657**	8,468
	32,041	31,546

12. Provisions

Group	Dilapidations £000	Restructuring £000	Legal £000	Other £000	Total £000
At 1 January 2022	770	70	440	-	1,280
Provisions made during the year	44	-	190	-	234
Provisions used during the year	(2)	-	(152)	-	(154)
Provisions reversed during the year	(164)	(30)	(149)	-	(343)
Effect of movement in exchange rates	58	-	22	-	80
At 1 January 2023	706	40	351	-	1,097
Assumed in business combination	271	-	135	393	799
Disposed	-	-	-	(138)	(138)
Provisions made during the year	84	-	454	768	1,306
Provisions used during the year	(129)	(8)	(71)	-	(208)
Provisions reversed during the year	(83)	-	(289)	(34)	(406)
Effect of movement in exchange rates	(70)	-	(10)	-	(80)
At 31 December 2023	**779**	**32**	**570**	**989**	**2,370**
Current liabilities	387	32	570	492	1,481
Non-current liabilities	392	-	-	497	889
At 31 December 2022	706	40	351	-	1,097
Current liabilities	458	40	351	-	849
Non-current liabilities	248	-	-	-	248

Dilapidation provisions have been recognised at the present value of the expected obligation. These discounts will unwind to their undiscounted value over the remaining lives of the leases via a finance charge within the income statement.

The average remaining life of the leases as at 31 December 2023 is 2.7 years (2022: 1.4 years).

The restructuring provision relates to the costs associated with the closure of some non-trading Group entities.

Legal provisions reflect the best estimate of the future cost of responding to potential legal claims.

The other provision category relates to provisions made in respect of product and service deliveries that include warranty provisions. It also includes a provision for the employer's NIC liability on share options that have vested (or on the proportion that have vested). As the employee is contractually responsible for the employer's NIC on any share options exercised and is required to remit this sum to the Company prior to the share options being exercised, a corresponding asset is recognised in current assets.

13. Called-up Share Capital

	2023 **£000**	2022 £000
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**462**	462
	Number	Number
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**46,185,874**	46,185,874

The allotted, called-up and fully paid share capital of the Company as at 31 December 2023 was 46,185,874 shares (2022: 46,185,874) and the total number of ordinary shares in issue (excluding treasury shares) was 45,458,972 (2022: 45,436,823). Of the ordinary shares in issue, no shares (2022: 34,800) were held by the Frontier Smart Technologies Employee Benefit Trust. The total number of voting rights in the Company is 45,458,972 (2022: 45,402,023).

14. Borrowings

	2023 **£000**	2022 £000
Current bank borrowings	**1,200**	1,200
Non-current bank borrowings	**11,756**	12,939
Total borrowings	**12,956**	14,139

	2023 **£000**	2022 £000
Opening balance	**14,139**	15,323
Repayments in the year	**(1,200)**	(1,200)
Amortisation of loan arrangement fee	**17**	16
Total borrowings	**12,956**	14,139

During the year ended 31 December 2016, the Group entered into a 10-year fixed term loan of £15.0 million which is secured on the freehold properties of the Group and on which interest is payable based on SONIA plus 2.6% margin. During the year ended 31 December 2019, the Group increased this existing loan by £4.8 million to £17.5 million on similar terms. The repayment profile of the loan is £1.2 million per annum over the term with the remaining balance repaid on expiry of the loan in 2026. Costs directly associated with entering into the loan (including the loan increase), have been offset against the balance outstanding and are being amortised over the period of the loan.

During the year ended 31 December 2020, the Group drew a further £1.5 million of loan funds from the £17.5 million existing loan agreement. This was on similar terms and with no change to the loan repayment profile (i.e. the quarterly repayments remained the same and the loan balance remains payable on 30 September 2026). Costs directly associated with entering into the additional loan have been offset against the balance outstanding and are being amortised over the period of the loan.

The reconciliation of bank loans interest expense is shown below.

	2023 £000	2022 £000
Interest expense	**499**	533
Interest paid	**(482)**	(517)
Amortisation of loan arrangement fee	**(17)**	(16)
Interest accrual at the year end	**-**	-

In December 2021 Science Group plc signed a Revolving Credit Facility ('RCF') with Lloyds Bank plc in order to provide additional capital resources to enable the execution of the Group's acquisition strategy. The RCF is for up to £25.0 million, with an additional £5.0 million accordion option. The original agreement was for a term of four years, however an option to extend the term by an additional year was taken by the Group in December 2023 (meaning the term end date is now December 2026). The margin on drawn sums is 3.3% over the Sterling Overnight Index Average ('SONIA') and is 1.1% per annum on undrawn amounts. Drawn amounts are secured on the Group's assets by debentures. The RCF is in addition to the Group's existing term loan.

The RCF has two financial covenants with which the Group needs to comply if the facility is drawn: (i) the Group's net leverage, as defined as the net debt divided by the rolling 12 month EBITDA, should not exceed 2.5; and (ii) the Group's interest cover, as defined as the rolling 12 month EBITDA divided by the rolling interest payments on all borrowings, should not be less than 4.0. Reporting is on a 6 monthly basis unless the net leverage exceeds 2, in which case reporting moves to quarterly until net leverage returns to below 2 again. For the term of the RCF, the previous covenants for the term loan are superseded by the covenants of the RCF and will not apply.

The reconciliation of RCF interest expense is shown below.

	2023 £000	2022 £000
Interest expense	**349**	349
Interest paid	**(268)**	(268)
Amortisation of RCF arrangement fee	**(81)**	(81)
Interest accrual at the year end	**-**	-

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

	2023 £000	2022 £000
Within one year	**1,200**	1,200
Between 1 and 2 years	**1,200**	1,200
Between 2 and 5 years	**10,600**	11,800
	13,000	14,200

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 interest rates on the swaps range from 0.4% to 1.3% which when combined with the margin on the loan economically fix the finance cost at 3.5%. The notional amount on the interest rate swaps reduces in line with the repayment of the term loan, so an effective hedge remains throughout the term of the loan. There are 4 active swaps in place at 31 December 2023, totalling £13.0 million. Of this total, £1.8 million will mature in September 2025 and the remaining balance of £11.2 million will mature in September 2026. The fair value of the swap at 31 December 2023 was an asset of £0.9 million (2022: asset of £1.4 million).

15. Business combinations

On 26 January 2023, the Group completed the acquisition of 100% of the share capital of TP Group plc, which adds significant scale to the Group and provides a strategic entry into the defence sector.

The acquisition of TP Group plc was an acquisition which commenced with an initial holding of 10.2% on 9 August 2021. The Group increased its shareholding with further share acquisitions across 2021 and 2022. In October 2022, the Group made an offer to acquire the remaining shares in TP Group plc through a court-approved Scheme of Arrangement. This became effective on 26 January 2023, at which point TP Group plc became a fully owned subsidiary undertaking of Science Group Plc.

The assets and liabilities acquired were as follows:

	Book Value £000	Fair Value Adjustment £000	Fair Value £000
Assets			
Non-current assets			
Intangible assets	6,247	14,183	20,430
Goodwill	4,240	(4,240)	-
Property, plant & equipment	2,292	304	2,596
Deferred tax assets	2,469	-	2,469
Non-current assets classified as held for sale	2,113	-	2,113
	17,361	10,247	27,608
Current assets			
Inventories	77	-	77
Trade and other receivables	8,386	-	8,386
Current tax assets	759	-	759
Cash and cash equivalents	4,284	-	4,284
	13,506	-	13,506
Liabilities			
Current liabilities			
Trade and other payables	12,412	-	12,412
Borrowings	5,960	-	5,960
Lease liabilities	354	-	354
	18,726	-	18,726
Non-current liabilities			
Provisions	661	-	661
Lease liabilities	2,395	(333)	2,062
Non-current liabilities classified as held for sale	1,325	-	1,325
Deferred tax liabilities	956	4,074	5,030
	5,337	3,741	9,078
Net assets acquired	**6,804**	**6,506**	**13,310**
Goodwill (Note 7)			4,222
Fair value of cost of investment			**17,532**

£17.5 million consists of £12.4 million consideration paid in 2023 and £5.1 million fair value of the investment at the point TP Group plc became a subsidiary.

Consideration paid	**2023 £000**	2022 £000
Purchase interest in subsidiary/associate	**12,409**	213
Debt acquired	**5,960**	-
Cash acquired	**(4,446)**	-
	13,923	213

Non-current assets and liabilities classified as held for sale relate to the sale of the entire issued share capital of Westek Technology Ltd to Roda Computer GmbH on 29 January 2023 for a net cash consideration of £0.6 million.

On 26 January 2023, the day of the acquisition, the Group repaid the outstanding TP Group plc Revolving Credit Facility with HSBC (£6.0 million).

TP Group plc contributed £44.9 million revenue and approximately £6.2 million to the Group's profit before tax for the period between the date of acquisition and the balance sheet date, not including £1.9 million of acquired intangible asset amortisation expense. If the acquisition of TP Group plc had been completed on the first day of the financial year, the additional impact on group revenue for the period would have been £2.6 million and the additional impact on group profit would have been a reduction of £0.9 million.

The goodwill of £4.2 million is attributable mainly to the skills and technical knowledge of TP Group's workforce. A third-party expert performed a detailed review of the acquired intangible assets. The customer contracts and relationships intangible asset was valued using a multi-period excess earnings methodology. Technology and marketing intangible assets were valued using a royalty savings methodology. The deferred tax liability, in respect of the acquired intangible assets, has been calculated by using the current statutory tax rate of 25.0%.

16. Post balance sheet events

There are no post balance sheet events to disclose.

17. 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 UK in conformity with the requirements of the Companies Act 2006, 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 2023.

The financial information set out above, which was approved by the Board on 20 March 2024, is derived from the full Group accounts for the year ended 31 December 2023 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 2023, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 20 March 2024.

The Annual Report for the year ended 31 December 2023 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.

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