



Strategic Report

Chairman's Statement

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

Financial Summary

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

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

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

Business Overview

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

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

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

North America continues to be a major market for the Group accounting for 44% of Group Core Business revenue in 2016 (2015: 57%) while Europe (excluding the UK) accounted for 27% of Group Core Business revenue (2015: 18%). With Sterling remaining low, particularly relative to the US Dollar over the past decade, the Board has increased investment into the US market and has announced the opening of a new office in California, alongside the Group's

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existing US offices in Boston and Houston. These US offices are increasingly being staffed by experienced Science Group managers and provide a stronger platform for the Group's offerings into this key market.

Corporate Matters

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

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

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

Summary

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

The Board adopts a non-political position with regard to geopolitical events and considers its role to be to respond to such developments not to comment on or critique the relative merits. Following the UK referendum (now referred to as "Brexit") and the pending notification of Article 50, together with the political uncertainty (and potential ramifications) related to the forthcoming elections in the Netherlands, France and Germany during 2017, the Board remains cautious regarding the economic environment in Europe, whilst noting that 2016 saw a significant growth in the Group's revenue from the region. At the same time, reflecting the Group's historic contribution from North America, the weakness of Sterling relative to the US Dollar, and the potential economic stimuli implied by some of the anticipated policies of the new Washington Administration, the Board has responded rapidly in accelerating investment in the USA as demonstrated by the transfer of experienced senior managers to the geography and the decision to open a new operation in San Francisco.

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

Martyn Ratcliffe
Chairman

Finance Director's Report

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

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

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

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

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

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

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

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

The Group's term loan with Lloyds Bank plc ('Lloyds') was due to expire in 2018. During the year, a new 10 year fixed term loan of £15 million was successfully negotiated, secured on the freehold properties at Harston and Epsom. Phased interest rate swaps hedge the loan resulting in a 10-year fixed effective interest rate of 3.5%, comprising a margin over 3 month LIBOR and the cost of the swap instruments to fix the interest rate over the 10 year period. (For comparison, the effective interest rate on the previous 5-year term loan, which was scheduled to expire in 2018, was approximately 3.9%. This loan has been repaid). The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repayable on expiry of the loan in 2026. One-off costs of £0.3 million were incurred arising from cancellation of the prior loan and associated swap, together with arrangement and legal fees associated with the new loan. The new term loan has no operating covenants as long as the Group net bank debt is less than £10 million. If this threshold is crossed, two conditions apply: a financial covenant, measured half-yearly on a 12 month rolling basis, such that annual EBITDA must exceed 1.25 times annual debt servicing (capital and interest); and a security covenant whereby the loan to value ('LTV') ratio of the securitised properties must remain below 75%. If either of these conditions are breached, a

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remedy period of 6 months is provided, during which time the EBITDA or LTV condition can be remedied or the net bank debt can be reduced to less than £10 million.

The Group has adopted hedge accounting for the interest rate swap under IAS 39, Financial Instruments, and the gain on change in fair value of the interest rate swaps, net of tax, entered into in 2016 of £0.2 million (2015: £nil) was recognised directly within equity. The settlement of the previous interest rate swap with the release of the previously recognised liability has resulted in a net loss of £75,000 in the Consolidated Income Statement in the year ended 31 December 2016 (2015: gain of £62,000).

The Group has maintained its strong balance sheet with shareholders' funds at 31 December 2016 of £36.0 million equivalent to 91.5 pence per share in issue (2015: shareholders' funds of £37.2 million, equivalent to 90.8 pence per share in issue), reflecting the share buy-back, dividends, goodwill impairment and amortisation of acquisition related intangible assets. This includes the Group's freehold properties in Harston, near Cambridge and in Epsom, Surrey, held on the balance sheet at an aggregate value of £21.9 million (2015: £20.9 million).

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

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

Rebecca Hemsted
Finance Director

Key Performance Indicators

The key performance indicators ('KPIs') are adjusted operating profit, operating profit and cash flow. Profitability of the business, with its relatively fixed cost base, is managed primarily via the review of revenue with secondary measures of consultant utilisation and daily fee rates. Working capital is reviewed via measures of debtor days and combined 'debtor and WIP' days. Performance against KPIs is reported in the Finance Director's Report.

Principal Risks and Uncertainties

In addition to the financial risks discussed in Note 3 and the effects on business performance related to changes in currency exchange rates noted in the Finance Director's Report, the Directors consider that the principal risks and uncertainties facing the Group and a summary of the key measures taken to mitigate those risks are as follows:

Potential downturn in the market for outsourced services

Science Group is dependent on the global market for outsourced research, development and technology advisory services. An economic downturn or instability may cause customers to delay or cancel product development projects and/or related services, or to use internal resources to achieve their business goals.

The Group seeks to mitigate this risk by diversifying exposure across geographical markets; increasing the number of market sectors in which the Group operates; diversifying the type of customers with whom the Group operates (ranging from well-funded start-up companies to large multi-national corporates); increasing the range of service offerings that the Group provides; and marketing activities to inform current and prospective customers regarding the benefits of outsourced research and development services and Science Group's proven ability to fulfill those objectives.

Dependence on key personnel

Science Group's business relies on recruiting and retaining highly qualified technical subject matter experts on whom the business depends to deliver research and development services, often requiring leading edge science and technology. Failure to recruit and retain key staff could threaten the business's ability to deliver projects to its clients or to win new work.

The Group seeks to mitigate this risk by encouraging staff retention through both competitive remuneration packages and a stimulating work environment. In addition to base salary, remuneration can include profit share/annual bonus, pension, health benefits, life assurance and share option schemes. Efforts are also made to foster a vibrant, dynamic and supportive environment for employees, which offers a diversity of technically challenging work for large and small companies across a range of industries and specialist market, science & technology areas. The Group also provides career development paths and training support.

Reputational risk

Failure to deliver project deliverables to an agreed budget, timetable and quality may result in reputational damage to Science Group that may adversely affect future sales.

The Group seeks to mitigate this risk by having in place effective Quality Assurance procedures; review meetings being held with clients on a regular basis; formal questionnaires being sent to clients at the close of projects to ascertain their views and to inform improvements and actions that the Group may take; and various accreditations held by certain parts of the Group including ISO 9001 and ISO 13485.

Economic conditions or other factors affecting the financial circumstances of customers of the Group

The profitability of the Group could be adversely affected by the general economic conditions in the United Kingdom, Continental Europe, United States and/or other key markets by virtue of the impact of a deterioration in the economic climate and/or financial failure of customers or potential customers of the Group. It may also involve customers defaulting on the payment of invoices issued by the Group or delaying payment of invoices which may have a significant impact on the income and the business of the Group.

Furthermore, following the UK referendum outcome on membership of the European Union ("Brexit"), combined with forthcoming elections in major European countries, there is uncertainty regarding the short, medium and long-term impact of these changes on markets, financial circumstances of customers and/or the future trading relationships between the UK and other countries in Europe.

The Group seeks to mitigate this risk by actively managing customer relationships, including credit limits where if appropriate may require the payment in advance of all or part of the estimated costs which could have an impact on revenue.

Project over-run or failure to meet technical milestones

Projects may over-run and/or may fail to meet technical milestones because the nature of the work which Science Group undertakes is technically challenging. Project over-runs can lead to loss of margin on projects and overall profitability for the consultancy business. Poor performance may also result in damage to Science Group's reputation.

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The Group seeks to mitigate this risk by contracting the majority of projects on a time and materials basis; operating a formal bid review process; incorporating risk premiums into agreements if appropriate; conducting regular project reviews to assess whether the revenue recognised on work in progress is a fair representation of actual costs incurred and estimated costs to completion; conducting regular, formal project board review meetings for large projects; and meetings with clients to review progress on projects.

Currency exchange rates

A significant proportion of the Group's revenues are invoiced in currencies other than Pounds Sterling, including but not limited to the US Dollar and Euro, whilst the vast majority of the Group's cost base is incurred in Pounds Sterling. As a result, variations in currency exchange rates may have a material impact on Group revenue and profit performance. The volatility of currency exchange rates relative to Pounds Sterling has increased following the Brexit referendum.

The Group seeks to mitigate this risk by transferring all foreign currency holdings into Pounds Sterling on a regular basis. The Group regularly considers the merits of currency hedging but to date has determined that it would not be appropriate.

In addition to the principal risks and uncertainties above, the Group faces other risks that include but are not limited to:

- increased competition;
- failure to retain, or loss of, customer contracts;
- customer concentration;
- technology leadership;
- product liability claims or other warranty and indemnity claims in respect of contractual obligations;
- infringement of third party intellectual property rights;
- failure of licensees to successfully exploit licensed technology;
- counterparty risk;
- United Kingdom and other taxation;
- risk to property;
- changes in legislation relating to trading.

Corporate Responsibility

Science Group takes its responsibilities as a corporate citizen seriously in the territories in which the Group operates. The Board's primary goal is to create shareholder value but in a responsible way which serves all stakeholders. Furthermore, Science Group seeks to continually enhance and extend its science and technology contribution to society through the work the Group undertakes with its clients and in areas where the Group decides to invest and explore directly.

Governance

The Board considers sound governance as a critical component of Science Group's success. Science Group has an effective and engaged Board, with a strong non-executive presence from diverse backgrounds, and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration Committee of the Board seeks to ensure that Science Group's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on our corporate governance can be found on page 11.

Employees, training and development

Science Group's employees are the business' greatest asset and the Board and Executive Team are committed to their career development. The Group makes a focused effort to offer bespoke training and mentorship to allow each individual to thrive within their environment and realise their personal potential. Formal training and career development is offered to staff of all levels through internal and external programmes that cover technical, business and managerial advancement opportunity. Beyond formal training, employees also lead informal lunchtime sessions on a regular basis to enable knowledge and skills transfer amongst teams.

Employee performance is aligned to the Group's objectives through an annual performance review process and ongoing project management, line management and mentorship feedback. Employees are kept up to date with information about the Group's activities through regular briefings and other media. Science Group operates a Group bonus/profit share schemes to qualifying employees. The Group also runs share option schemes which are at the discretion of the Remuneration Committee and in which Executives and managers are invited to participate on the basis of recommendations made by the Executive Team to the Remuneration Committee.

Diversity and inclusion

Science Group's employment policies are non-discriminatory on the grounds of age, gender, nationality, ethnic or racial origin, disability, religion or belief, pregnancy and maternity, sexual orientation or marital or civil partnership status. Science Group gives due consideration to all applications and provides training and the opportunity for career development wherever possible. The Board does not support discrimination of any form, positive or negative, and all appointments are based solely on merit.

The gender ratio for the number of persons employed by Group at the end of the year was as follows:

	31 December 2016				31 December 2015			
	No	Male %	No	Female %	No	Male %	No	Female %
Plc Board of Directors (incl. Company Secretary)	3	60%	2	40%	3	60%	2	40%
Corporate Executive Team	2	67%	1	33%	2	67%	1	33%
Senior management & staff (>£60,000 per annum salary)	56	84%	11	16%	54	84%	10	16%
Other employees	99	43%	129	57%	126	45%	156	55%
Total employees	160	53%	143	47%	185	52%	169	48%

Notes:

- Employees are only allocated to one category. For example, where an individual is a member of the plc Board, that person is not then included within the other classifications;
- Subsidiary directors have not been separately identified in the above table.

Health and safety

Science Group endeavours to ensure that the working environment is safe and conducive to healthy, safe and motivated employees. The Group has a Health and Safety at Work policy which is reviewed regularly by the Board. The Board Executive Director, responsible for health and safety, is the Finance Director with day-to-day responsibility being undertaken by the Company Secretary.

The Group is committed to the health and safety of its employees, clients, sub-contractors and others who may be affected by the Group's work activities. The Group evaluates the risks to health and safety in the business and manages this through a Health and Safety Management System.

The Group provides necessary information, instruction, training and supervision to ensure that employees are able to discharge their duties effectively. The Health and Safety Management System used by the Group ensures compliance with applicable legal and regulatory requirements and internal standards and seeks, by continuous improvement, to develop health and safety performance.

Research and development

Science Group provides outsourced research and development services and therefore has an inherent and continuing commitment to high levels of research and development, primarily on behalf of its clients but also on its own behalf.

Environment

Science Group's policy with regard to the environment is to ensure that it understands and effectively manages the actual and potential environmental impact of our activities. The Directors feel that due to the nature of the Group's operations, it does not have a significant impact on the environment. The Group strives to seek to minimise its carbon impact and recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to reduce waste and, where practicable, re-use and recycle consumables.

The Group's operations are conducted such that compliance is maintained with legal requirements relating to the environment in areas where the Group conducts its business. During the period covered by this report Science Group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

Approved by the Board of Directors on 1 March 2017 and signed on its behalf by:
Martyn Ratcliffe Chairman

Rebecca Hemsted

Finance Director

Report of the Directors

The Directors present their annual report on the business of Science Group plc together with Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2016.

Accompanying the Report of the Directors is the Strategic Report.

Review of the business and its future development

A review of the business and its future development is set out in the Strategic Report, incorporating the Chairman's Statement and Finance Director's Report.

Cautionary statement

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of these reports and should be treated with caution due to inherent uncertainties associated with such statements.

Results and dividends

The results of the Group are set out in detail on page 17.

The Directors propose to pay a dividend of 4.2 pence per share for the year ended 31 December 2016 (2015: 4.0 pence).

Capital structure

Details of the Company's issued share capital, together with details of the movements therein are set out in Note 20 to the Financial Statements. The Company has one class of ordinary shares which carry no right to fixed income.

Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Strategic Report and Note 3 to the Financial Statements.

Directors

The Directors and associated biographies are listed on page 10.

Rebecca Hemsted will retire by rotation and offer herself for re-election at the next Annual General Meeting.

Directors' interests in shares and contracts

Directors' interests in the shares of Science Group plc at 31 December 2016 and 31 December 2015, and any changes subsequent to 31 December 2016, are disclosed in Note 8. None of the Directors had an interest in any contract of significance to which Science Group was a party during the financial year.

Substantial shareholdings

As at 28 February 2017, Science Group had been notified of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% held
Martyn Ratcliffe	13,412,906	34.10%
Ruffer LLP	6,010,679	15.28%
Hargreave Hale	5,536,820	14.08%
Miton Asset Management	1,915,000	4.87%
Charles Stanley & Co	1,484,878	3.78%

Annual General Meeting

The Annual General Meeting ('AGM') will be held at 9am on 18 May 2017 at The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

Report of the Directors (continued)

Purchase of own shares

At the AGM on 19 May 2016, shareholders approved a resolution for the Company to buy back up to 10% (4,117,701) of its own shares. This resolution remains valid until the conclusion of the next Annual General Meeting in 2017 or 30 June 2017 if earlier. As at the date of this report, the Company has bought back 2,115,000 shares pursuant to this authority. For further information refer to Note 20.

Employees

The average number of persons, including Directors, employed by the Group and their remuneration is set out in Note 7 to the Financial Statements.

Donations

The Company operates a scheme whereby it will, on a discretionary basis, match charitable donations raised by employees up to a specified limit. Charitable contributions made in 2016 were £1,000 (2015: £4,000). No political donations were made during the period (2015: £nil).

Post balance sheet events

Post balance sheet events are disclosed in Note 26 to the Financial Statements.

Auditor

KPMG LLP were re-appointed as auditor during the year. KPMG LLP are willing to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Report of the Directors (continued)

Directors

The Directors of the Company who served during the year were:

Director	Role at 31 December 2016	Date of (re-) appointment	Retired	Board Committee		
Martyn Ratcliffe	Chairman	21/05/15		N		
Rebecca Hemsted	Finance Director	20/05/14				
David Courtley*	Non-Executive	19/05/16		A	N	R
Michael Lacey-Solymar*	Non-Executive	19/05/16		A	N	R

Board Committee abbreviations are as follows: A = Audit Committee; R = Remuneration Committee; N = Nomination Committee

* Independent Director

Directors' Biographies

Below are the biographies of the Directors:

Martyn Ratcliffe – Chairman

Martyn Ratcliffe was appointed Chairman on 15 April 2010 following his investment in Sagentia Group, now Science Group. He was Chairman of Microgen plc from 1998 to 2016 and Chairman of RM plc from 2011 to 2013. He was previously Senior Vice President of Dell Computer Corporation, responsible for EMEA. He has a degree in Physics from the University of Bath and an MBA from City University, London.

Michael Lacey-Solymar – Non-Executive Director

Michael was appointed a Non-Executive Director on 11 October 2012. Michael has over 25 years corporate finance experience, having spent 18 years at UBS and seven years at Investec. He is currently chairman of Cambridge Medical Technologies Limited, a partner at Opus Corporate Finance LLP and a Non-Executive Director of DrugDev Inc. He has a degree in Modern Languages from the University of Oxford.

Rebecca Hemsted – Finance Director*

Rebecca Hemsted was appointed to the Board on 27 January 2014. Ms Hemsted is a Chartered Accountant and has a degree in Physics from the University of Oxford. She qualified at Deloitte where she spent six years including three years in New Zealand, and joined Science Group from RM plc where she was Business Finance Partner for the Managed Services Business.

Sarah Cole – Company Secretary

Sarah Cole joined the Company on 10 January 2011 and was appointed Company Secretary on 22 March 2013. Ms Cole has a degree in Jurisprudence from the University of Oxford and qualified as a Solicitor in 2003.

David Courtley – Senior Independent Director

David Courtley was appointed a Non-Executive Director on 15 April 2010. He is also Chief Executive of Mozaic Services and Non-Executive Director of Statpro Group plc. He was previously Chief Executive of Phoenix IT Group plc, Chief Executive of Fujitsu Services Europe and MD of EDS UK. He has a degree in Mathematics from Imperial College, London.

*** Retire by rotation at the next AGM**

Report of the Directors (continued)

Corporate Governance Report

The Company is registered in England and Wales and listed on the Alternative Investment Market of the London Stock Exchange ('AIM').

Statement about applying the principles of the Code

Science Group is not required to comply with the UK Corporate Governance Code but has reported on the Company's Corporate Governance arrangements drawing upon best practice available, including those aspects of the UK Corporate Governance Code which the Board considers to be relevant to the Company.

Board of Directors

Biographical details of the Directors are included on page 10.

At 31 December 2016, the Board comprised an Executive Chairman, Finance Director and two independent Non-Executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-Executive Directors hold meetings without the Chairman and Finance Director present.

The Chairman is primarily responsible for the working of the Board of Science Group plc, Group corporate strategy and the overall business operations. The Chairman is assisted in the managing of the business on a day-to-day basis by the Corporate Executive Team including the Finance Director.

High-level strategic decisions are discussed and taken by the full Board. Investment decisions (above a de minimis level) are taken by the full Board. Operational decisions are taken by the Corporate Executive Team and Divisional Managing Directors within the framework approved in the annual financial plan and within a framework of Board-approved authorisation levels.

The Board met 14 times during 2016 (2015: 20). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically meets ten times a year to consider a formal schedule of matters including the operating performance of the business and to review Science Group's financial plan and business model.

Non-Executive Directors are appointed for a three year term after which their appointment may be extended by mutual agreement after due consideration by the Nomination Committee of the Board. In accordance with the Company's Articles of Association, the longest serving Director must retire at each Annual General Meeting and each Director must retire in any three year period, so that over a three year period all Directors will have retired from the Board and been subject to shareholder re-election.

All Directors have access to the advice and services of the Company Secretary and other independent professional advisers as required. Non-Executive Directors have access to key members of staff and are entitled to attend management meetings in order to familiarise themselves with all aspects of Science Group.

It is the responsibility of the Chairman and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

Relations with shareholders

The Directors seek to build on a mutual understanding of objectives between Science Group and its major shareholders by meeting to discuss long term issues and receive feedback, communicating regularly throughout the year and issuing trading updates as appropriate. The Board also seeks to use the Annual General Meeting to communicate with its shareholders.

Remuneration strategy

Science Group operates in a competitive market. If Science Group is to compete successfully, it is essential that it attracts, develops and retains high quality staff. Remuneration policy has an important part to play in achieving this objective. Science Group aims to offer its staff a remuneration package which is both competitive in the relevant employment market and which reflects individual performance and contribution. For 2016, in addition to base salary, benefits have included pension contributions, healthcare and life assurance benefits, a company bonus/profit share scheme and, where appropriate, share options.

Report of the Directors (continued)

Board Committees

The Board maintains three standing committees, being the Audit, Remuneration and Nomination Committees. The minutes of all sub-committees are circulated for review and consideration by all relevant Directors, supplemented when appropriate by oral reports from the Committee Chairmen at Board meetings.

Audit Committee

The Audit Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar and David Courtley. The Audit Committee met 3 times during 2016 (2015: 3). Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by David Courtley and currently comprises David Courtley and Michael Lacey-Solymar. The Remuneration Committee met 7 times during 2016 (2015: 6). It may take advice from time to time from external advisers, but did not do so in 2016. Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and also currently comprises David Courtley and Michael Lacey-Solymar. The Nomination Committee met once during 2016 (2015: 1). It may take advice from time to time from external advisers, but did not do so in 2016. The Committee meets when necessary. The Committee's primary function is to make recommendations to the Board on all new appointments and re-appointments and also to advise generally on issues relating to Board composition and balance. The Board seeks input from all Directors regarding nominations for Board positions. All Board appointments have to be ratified at a General Meeting of the Company.

Meetings of the Board and sub-committees during 2015 were as follows:

	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in 2015	14	3	7	1
Martyn Ratcliffe	14/14	3/3*	7/7*	1/1
Rebecca Hemsted	14/14	3/3*	7/7*	1/1*
David Courtley	14/14	3/3	7/7	1/1
Michael Lacey-Solymar	14/14	3/3	7/7	1/1

* Attendance by invitation

Report of the Directors (continued)

Report of the Remuneration Committee

Remuneration Committee

The Remuneration Committee, which is chaired by David Courtley, currently comprises David Courtley and Michael Lacey-Solymar.

The Remuneration Committee monitors the remuneration policies of Science Group to ensure that they are consistent with Science Group's business objectives. Its terms of reference include the recommendation and execution of policy on Director and executive management remuneration and for reporting decisions made to the Board. The Committee both determines the individual remuneration package of the Chairman and Finance Director and reviews remuneration levels for all senior employees of Science Group. In accordance with the provisions of the UK Corporate Governance Code, this responsibility includes pension rights and any other compensation payments including bonus payments and share option awards.

The Remuneration Committee recognises that incentivisation of staff is a key issue for Science Group, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to Science Group results. During the year the Remuneration Committee approved grants of share options and confirmed a profit related bonus scheme for the Company for 2016.

The aim of the Board and the Remuneration Committee is to maintain a policy that:

- establishes a remuneration structure that will attract, retain and motivate executives, senior managers and other staff of appropriate calibre;
- rewards executives and senior managers according to both individual and Group performance;
- establishes an appropriate balance between fixed and variable elements of total remuneration, with the performance-related element forming a potentially significant proportion of the total remuneration package;
- aligns the interests of executives and senior managers with those of shareholders through the use of performance-related rewards and share options in Science Group.

From time to time the Committee may obtain market data and information as appropriate when making its comparisons and decisions and is sensitive to the wider perspective, including pay and employment conditions elsewhere in Science Group, especially when undertaking salary/remuneration reviews.

Employee remuneration can include the following elements:

- basic salary – normally reviewed annually and set to reflect market conditions, personal performance and benchmarks in comparable companies;
- annual performance-related bonus/profit share – executives, managers and employees receive annual bonuses/profit shares related to company performance. The Chairman does not participate in the Group performance-related bonus scheme;
- benefits – benefits include medical insurance, life assurance and pension contributions. The Chairman does not receive these benefits;
- share options – share option grants are reviewed regularly and granted on a discretionary basis by the Remuneration Committee.

Full details of each Director's remuneration package and their interests in shares and share options can be found in Note 8 to the Financial Statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

Service contracts

The Chairman and Finance Director have employment contracts that contain notice periods of six months. Non-Executive Directors' service contracts may be terminated on three months' notice. There are no additional financial provisions for termination.

Share option plans

The Company adopted an approved and unapproved Share Option Scheme in 2008, the terms of which were reviewed and amended in 2010 and 2013 and adopted by shareholders. Further in 2013, the Company adopted an unapproved Performance Share Plan ('PSP'), the terms of which were amended in 2014 and adopted by shareholders. Options granted under the former schemes were issued at market price whilst options granted under the PSP scheme are issued at the nominal share price. The Remuneration Committee approves any options granted thereunder. Directors are entitled to participate in Science Group's share option schemes. Independent Non-Executive Directors do not participate in Science Group's share option schemes. It is the policy of Science Group to grant share options to Executive Directors and key employees as a means of encouraging ownership and providing incentives for performance. To date share options granted to the Chairman have been specifically approved by shareholders.

Report of the Directors (continued)

The market price of the shares at 31 December 2016 was 155.1 pence (2015: 138.0 pence). The highest and lowest price during the year was 163.0 pence and 108.5 pence respectively.

Report of the Audit Committee

Audit Committee

The Audit Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar and David Courtley.

The Audit Committee has written terms of reference and provides a mechanism through which the Board can maintain the integrity of the financial statements of Science Group and any formal announcements relating to Science Group's financial performance; to review Science Group's internal financial controls and Science Group's internal control and risk management systems; and to make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness and the independence and objectivity of the auditors. A recommendation regarding the auditors is put to shareholders for their approval in general meetings.

Provision is made by the Audit Committee to meet the auditors at least twice a year.

Internal controls

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investments and Science Group's assets, the Directors recognise that they have overall responsibility for ensuring that Science Group maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of that system. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material mis-statement or loss, and that the system is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

Science Group has established procedures necessary to implement the guidance on internal control issued by the FRC Guidance on Audit Committees 2014. This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers.

The key features of the internal control system are described below:

Control environment – Science Group is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There are also policies in place for the reporting and resolution of suspected fraudulent activities. Science Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

Risk identification – management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements.

Information systems – Group businesses participate in periodic operational/strategic reviews and annual plans. The Board actively monitors performance against plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Main control procedures – Science Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

Monitoring and corrective action – there are procedures in place for monitoring the system of internal financial controls.

This process, which operates in accordance with the FRC Guidance, was maintained throughout the financial year, and has remained in place up to the date of the approval of these financial statements. The Board, via the Audit Committee, has reviewed the systems and processes in place in meetings with the Finance Director and Science Group's auditors during 2016. No internal audit function is operated outside of the systems and processes in place, as the Board considers that Science Group is too small for a separate function. The Board considers the internal control system to be appropriate for Science Group.

Report of the Directors (continued)

During the year KPMG LLP were re-appointed as auditor. They have provided services in relation to the annual audit of the Group but have not provided any non-audit services.

Report of the Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and also currently comprises David Courtley and Michael Lacey-Solymar.

The Nomination Committee reviews the composition of the Board and its effectiveness on an annual basis in order to ensure that the Board comprises the requisite skills and experience and reviews how the Board works together as a unit. The Nomination Committee does not believe that it is appropriate to set any specific targets with regards to diversity, including gender, although the Committee believes that the search for Board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approval

The Report of the Directors was approved by the Board on 1 March 2017 and signed on its behalf:

By order of the Board



Sarah Cole
Company Secretary

Harston Mill
Harston
Cambridge
CB22 7GG

Independent Auditor's Report to the Members of Science Group plc

For the year ended 31 December 2016

We have audited the financial statements of Science Group plc for the year ended 31 December 2016 set out on pages 17 to 48. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Charles le Strange Meakin (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Botanic House,
100 Hills Road,
Cambridge

1 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Note	Group	
		2016 £000	2015 £000
Revenue	4	36,899	31,220
Operating expenses before adjusting items	5	(30,683)	(25,896)
Adjusted operating profit	4	6,216	5,324
Amortisation and impairment of intangible assets	13	(1,857)	(1,660)
Impairment of other investments	15	(50)	-
Acquisition integration costs		(317)	(534)
Share based payment charge	7,20	(597)	(452)
Operating profit		3,395	2,678
Finance income	6	2	88
Finance costs	6	(429)	(326)
Profit before income tax		2,968	2,440
Income tax (charge) / credit (including R&D tax credit of £675,000 (2015: £788,000))	9	(219)	368
Profit for the year		2,749	2,808
Profit for the year attributable to equity holders of the parent		2,749	2,808
Earnings per share			
Earnings per share from continuing operations (basic)	11	6.8p	7.2p
Earnings per share from continuing operations (diluted)	11	6.6p	6.8p
Adjusted earnings per share from continuing operations (basic)	11	11.4p	10.3p
Adjusted earnings per share from continuing operations (diluted)	11	11.1p	9.9p

All amounts relate to continuing operations.

The accompanying Notes form an integral part of this Consolidated Income Statement.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2016

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 2015	421	7,806	(4,438)	10,343	238	1,907	17,172	33,449
Purchase of own shares	-	-	(575)	-	-	-	-	(575)
Acquisition of Oakland Innovation Limited	-	424	940	-	-	-	-	1,364
Issue of shares out of treasury stock	-	-	2,858	-	-	-	(1,400)	1,458
Dividends paid	-	-	-	-	-	-	(1,527)	(1,527)
Share based payment charge	-	-	-	-	-	452	-	452
Deferred tax on share based payment transactions	-	-	-	-	-	-	(268)	(268)
Transactions with owners	-	424	3,223	-	-	452	(3,195)	904
Profit for the year	-	-	-	-	-	-	2,808	2,808
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	-	70	-	-	70
Total comprehensive income for the year	-	-	-	-	70	-	2,808	2,878
Balance at 31 December 2015	421	8,230	(1,215)	10,343	308	2,359	16,785	37,231
Balance at 1 January 2016	421	8,230	(1,215)	10,343	308	2,359	16,785	37,231
Purchase of own shares	-	-	(2,757)	-	-	-	-	(2,757)
Issue of shares out of treasury stock	-	-	364	-	-	-	(83)	281
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	(361)
Dividends paid	-	-	-	-	-	-	(1,646)	(1,646)
Share based payment charge (note 20)	-	-	-	-	-	353	-	353
Deferred tax on share based payment transactions	-	-	-	-	-	-	(74)	(74)
Transactions with owners	-	-	(2,393)	-	-	(8)	(1,803)	(4,204)
Profit for the year	-	-	-	-	-	-	2,749	2,749
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	197	197
Exchange differences on translating foreign operations	-	-	-	-	30	-	-	30
Total comprehensive income for the year	-	-	-	-	30	-	2,946	2,976
Balance at 31 December 2016	421	8,230	(3,608)	10,343	338	2,351	17,928	36,003

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2016

Company	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 2015	421	7,806	(4,438)	10,343	-	342	22,127	36,601
Purchase of own shares	-	-	(575)	-	-	-	-	(575)
Acquisition of Oakland Innovation Limited	-	424	940	-	-	-	-	1,364
Issue of shares out of treasury stock	-	-	2,858	-	-	-	(1,400)	1,458
Dividends paid	-	-	-	-	-	-	(1,527)	(1,527)
Share based payment charge	-	-	-	-	-	43	-	43
Deferred tax on share based payment transactions	-	-	-	-	-	-	(360)	(360)
Transactions with owners	-	424	3,223	-	-	43	(3,287)	403
Profit and total comprehensive income for the year	-	-	-	-	-	-	3,100	3,100
Balance at 31 December 2015	421	8,230	(1,215)	10,343	-	385	21,940	40,104
Balance at 1 January 2016	421	8,230	(1,215)	10,343	-	385	21,940	40,104
Purchase of own shares	-	-	(2,757)	-	-	-	-	(2,757)
Issue of shares out of treasury stock	-	-	364	-	-	-	(83)	281
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	(361)
Dividends paid	-	-	-	-	-	-	(1,646)	(1,646)
Share based payment charge	-	-	-	-	-	43	-	43
Deferred tax on share based payment transactions	-	-	-	-	-	-	11	11
Transactions with owners	-	-	(2,393)	-	-	(318)	(1,718)	(4,429)
Profit and total comprehensive income for the year	-	-	-	-	-	-	1,700	1,700
Balance at 31 December 2016	421	8,230	(3,608)	10,343	-	67	21,922	37,375

Consolidated and Company Balance Sheet

At 31 December 2016

		Company		Group	
	Note	2016 £000	2015 £000	2016 £000	2015 £000
Assets					
Non-current assets					
Acquisition related intangible assets	13	-	-	5,183	6,000
Goodwill	13	-	-	4,033	5,073
Property, plant and equipment	14	-	-	23,793	22,040
Investments	15	19,983	21,781	50	100
Derivative financial assets		-	-	197	-
Deferred tax assets	10	44	23	287	1,324
		20,027	21,804	33,543	34,537
Current assets					
Trade and other receivables	16	12,178	16,784	8,219	8,980
Current tax asset		6	1	537	472
Cash and cash equivalents	17	5,377	1,724	25,996	14,516
		17,561	18,509	34,752	23,968
Total assets		37,588	40,313	68,295	58,505
Liabilities					
Current liabilities					
Trade and other payables	18	213	209	15,213	10,689
Borrowings	21	-	-	1,000	1,034
		213	209	16,213	11,723
Non-current liabilities					
Borrowings	21	-	-	13,664	6,753
Derivative financial liabilities	19	-	-	-	141
Deferred tax liabilities	10,19	-	-	2,415	2,657
		-	-	16,079	9,551
Total liabilities		213	209	32,292	21,274
Net assets		37,375	40,104	36,003	37,231
Shareholders' equity					
Share capital	20	421	421	421	421
Share premium		8,230	8,230	8,230	8,230
Treasury stock		(3,608)	(1,215)	(3,608)	(1,215)
Merger reserve		10,343	10,343	10,343	10,343
Translation reserve		-	-	338	308
Share based payment reserve		67	385	2,351	2,359
Retained earnings		21,922	21,940	17,928	16,785
Total equity		37,375	40,104	36,003	37,231

The financial statements were approved by the Board of Directors and signed on its behalf by:


 Rebecca Hemsted Finance Director

 Martyn Ratcliffe Chairman

On 1 March 2017

The accompanying notes form an integral part of this consolidated and company balance sheet.

The company's registered number is 06536543.

Consolidated and Company Statement of Cash Flows

For the year ended 31 December 2016

	Note	Company		Group	
		2016 £000	2015 £000	2016 £000	2015 £000
Operating profit		1,231	2,406	3,395	2,678
Adjustments for:					
Depreciation and amortisation charges		-	-	1,562	1,114
Loss on disposal of property, plant and equipment		-	-	57	7
Share based payment charge		287	43	597	452
Impairment of goodwill		-	-	1,040	1,066
Impairment of cost of investment		1,798	387	50	-
Decrease / (increase) in receivables		4,579	(2,528)	675	(1,412)
Increase in payables		31	88	4,211	1,283
Cash generated from operations		7,926	1,123	11,587	5,188
Finance costs		(2)	-	(354)	(326)
UK corporation tax received / (paid)		-	-	560	(9)
Foreign corporation tax (paid) / received		-	-	(123)	2
Cash flows from operating activities		7,924	1,123	11,670	4,855
Interest received		456	727	2	26
Purchase of property, plant and equipment		-	-	(2,432)	(7,857)
Purchase of subsidiary undertakings, net of cash received		-	(3,636)	-	(4,588)
Purchase of interest in investment		-	-	-	(100)
Increase in equity investment in subsidiaries		-	(350)	-	-
Cash flows used in investing activities		456	(3,986)	(2,430)	(12,519)
Issue of shares out of treasury		281	1,458	281	1,458
Payment in lieu of cancelled share options		(605)	-	(605)	-
Repurchase of own shares		(2,757)	(575)	(2,757)	(575)
Dividends paid		(1,646)	(1,527)	(1,646)	(1,527)
Proceeds from bank loans		-	-	15,000	-
Repayment of bank loans		-	-	(8,000)	(1,000)
Repayment of interest rate swap		-	-	(216)	-
Cash flows generated by / (used in) financing activities		(4,727)	(644)	2,057	(1,644)
Increase / (decrease) in cash and cash equivalents in the year		3,653	(3,507)	11,297	(9,308)
Cash and cash equivalents at the beginning of the year		1,724	5,231	14,516	23,802
Exchange gains on cash		-	-	183	22
Cash and cash equivalents at the end of the year	17	5,377	1,724	25,996	14,516

Notes to the Financial Statements

1 General information

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

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

The Group and Company accounts of Science Group plc were prepared under IFRS as adopted by the European Union, and have been audited by KPMG LLP. Accounts are available from the Company's registered office; Harston Mill, Harston, Cambridge, CB22 7GG.

The Company is incorporated and domiciled in England and Wales under the Companies Act 2006 and has its primary listing on the AIM Market of the London Stock Exchange (SAG.L). The value of Science Group plc shares, as quoted on the London Stock Exchange at 31 December 2016, was 155.1 pence per share (31 December 2015: 138.0 pence).

These consolidated financial statements have been approved for issue by the Board of Directors on 1 March 2017.

Alternative performance measures

The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share' and 'net-funds-plus-freehold-property-per-share in issue' which are not defined within the International Financial Reporting Standards (IFRS). These are explained as follows:

(a) Adjusted operating profit

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

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

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

(b) Adjusted earnings per share ('EPS')

The Group calculates this measure by dividing adjusted profit after tax by the weighted average number of shares in issue and the calculation of this measure is disclosed in Note 11. The tax rate applied to calculate the tax charge in this measure is the substantively enacted corporation tax rate for the year which is 20% (2015: 20.3%) which results in a comparable tax charge year on year.

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

The Group calculates this measure by dividing the sum of: cash and cash equivalents plus freehold land and buildings less borrowings by the number of shares in issue at the balance sheet date. This is calculated as follows:

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

The Directors believe that disclosing these alternative performance measures enhances shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Specifically, the adjusted operating profit measure is used internally in order to assess the underlying operational performance of the Group, aid financial, operational and commercial decisions and in determining employee compensation. The adjusted EPS measure allows the shareholder to understand the underlying value generated by the Group on a per share basis. The measure of net-funds-plus-freehold-property-per-share in issue is intended to assist shareholders in understanding the component of the market value of the shares that is attributable to these assets held by the Group. As such, the Board considers these measures enhance shareholders' understanding of the Group results and should be considered alongside the IFRS measures.

Notes to the Financial Statements

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Science Group have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments at fair value. The financial statements are in accordance with IFRS as adopted by the EU.

Of the new standards and interpretations effective for the year ended 31 December 2016, there was no impact on the presentation of the financial statements of Science Group other than in disclosure. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated financial statements.

No income statement is presented for the Company as provided by Section 408 of the Companies Act 2006. The Company's profit for the financial period after tax, determined in accordance with the Act, was £1,700,000 (2015: £3,100,000).

The standards and interpretations in issue but not effective for accounting periods commencing on 1 January 2016 that may impact on Science Group going forward are listed below. Science Group has not adopted these early.

Number	Title	Effective
Amendments to IAS 7	Disclosure initiative	1-Jan-17
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1-Jan-17
IFRS 15	Revenue from contracts with customers	1-Jan-18
IFRS 9	Financial Instruments	1-Jan-18
Amendments to IFRS 2	Classification and measurement of share based payment transactions	1-Jan-18
IFRS 16	Leases	1-Jan-19

The group intends to adopt these standards in the first accounting period after the effective date. With the exception of IFRS 16, the Directors do not anticipate that the adoption of the remaining Standards and Interpretations will have a material effect on the consolidated financial statements in the period of initial application.

With regard to IFRS 15, which provides for a single principle-based model to be applied to all sales contracts based on the transfer of control of goods and services to customers, the Directors do not anticipate that the application of the standard will have a material effect on the amounts reported and the disclosures made in the consolidated financial statements.

The adoption of IFRS 16 will result in the recognition of assets on the balance sheet which are currently leased under operating lease. Until the group performs a detailed impact assessment of this standard, it is not practicable to provide a reasonable estimate of the financial impact.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Science Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 25.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. In addition, Note 3 to the Financial Statements and the Report of the Directors include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.2 Basis of consolidation

The basis of consolidation is set out below:

Subsidiaries – subsidiaries are entities controlled by Science Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Investment in subsidiaries – in the Company accounts, investments in subsidiaries are stated at cost less any provision for impairment where appropriate.

Business combinations – the acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed in exchange for control. The acquired company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business

Combinations are recognised at their fair value at the acquisition date. Acquisition expenses are expensed as incurred.

Other investments – investments made in entities over which Science Group is deemed to have no significant influence are stated at cost less any provision for impairment where appropriate. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2.3 Segment reporting

Under IFRS 8, the accounting policy for identifying segments is based on the internal management reporting information that is regularly reviewed by the chief operating decision makers (CODMs).

There are two segments identified; Core Business and Non-Core Business. Core Business activities includes all service revenue, recharged materials and product and licence income generated directly from these activities. Non-Core activities include rental income from Harston Mill and associated services.

2 Summary of significant accounting policies (continued)

Notes to the Financial Statements

2.4 Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill - goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of net assets acquired. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in profit or loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Acquisition related intangible assets - net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition related intangible assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed. The estimated useful economic life for customer contracts and relationships is between 7 and 11 years.

Following identification of indicators of impairment for the OTM Consulting Cash-Generation Unit (CGUs), the useful economic life of OTM Consulting customer relationships has been reviewed and reduced to a remaining useful economic life of 3 years as at 31 December 2016.

2.5 Research and development expenditure

Research and development expenditure is written off as incurred.

2.6 Property, plant and equipment

Land and buildings as shown in the Notes to the Financial Statement comprise offices and laboratories at Harston Mill, Harston, Cambridge, UK and at Great Burgh, Epsom, UK. Land and buildings are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to Science Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other property, plant and equipment is calculated using the straightline method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	25 years
Furniture and fittings	3-5 years
Equipment	3 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount, when an indicator of impairment is identified.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.7 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that Science Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.8 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and on demand deposits, together with short term, liquid investments that are readily convertible to a known amount of cash and that are subject to a minimal risk of changes in value.

2.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.11 Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity attributable to the Company's equity holders. Where such shares are subsequently cancelled, the movement is recognised directly in equity with no gain or loss recognised in profit or loss.

Notes to the Financial Statements

2 Summary of significant accounting policies (continued)

2.13 Revenue recognition

Consulting revenue represents the fair value of the consideration received or receivable for consulting services on each client assignment provided during the year based on the time worked at agreed fee rates, including expenses and disbursements but excluding value added tax and other similar sales taxes for both time and materials and fixed priced contracts.

Consulting revenues is recognised when the service has been provided.

Subscription income is recognised in the income statement on a straight line basis.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs. An expected loss on contract is recognised immediately in the income statement.

Property income from leases over property held is recognised in the related period on a straightline basis over the lease term.

Investment income is recognised in the income statement in the period in which it arises.

2.14 Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of each of Science Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Pound Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

In respect of translation differences on non-monetary items, items held at cost are translated at the exchange rate at the date of transaction.

(c) Group companies

The results and financial position of all Science Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) all resulting exchange differences are recognised as a separate component of equity; and
- (iv) on disposal of a foreign subsidiary the accumulated translation differences recognised in equity are reclassified to profit and loss and recognised as part of the gain or loss on disposal.

2.15 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies based on a percentage of salary earned, currently ranging between 5% and 8%. These are defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately

administered pension insurance plans. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Sagentia Inc. provides 401(k) benefits to employees. Science Group has no further payment obligations once the contributions have been paid.

(b) Share based compensation

Science Group operates an equity-settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as calculated by using an appropriate valuation method. The Black-Scholes model excludes the impact of any non-market vesting conditions (for example profitability and sales growth targets). The Monte Carlo and Binomial Option Pricing models build in any market performance conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The share based compensation charge in the Company accounts is based only on those option holders employed directly by the Company.

(c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Science Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(d) Profit-sharing and bonus plans

Science Group recognises a liability and an expense for bonuses and/or profit-sharing, based on the incentive plans approved by the Remuneration Committee. Science Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Sales commission

Science Group operates a sales commission scheme for relevant sales staff. A liability and expense is recognised based on sales made by employees who are eligible for the scheme, and is calculated using the commission scheme rules. Sales commission is paid quarterly and is only payable to the employee when the associated revenue is recognised.

2.16 Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Notes to the Financial Statements

2 Summary of significant accounting policies (continued)

2.16 Deferred income tax (continued)

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by Science Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Income tax

Income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws of the relevant countries that have been enacted or substantively enacted by the balance sheet date.

2.18 Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are treated as operating leases and are charged on a straight-line basis over the lease term, even if payments are not made on such a basis. Income from property leases is recognised in the related period on a straightline basis over the lease term. The majority of property leases are subject to mutual notice periods of up to 6 months.

2.19 Dividends paid

Dividends are recognised as a liability in the period in which the shareholders' right to receive payment has been established.

2.20 Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

Notes to the Financial Statements

3 Financial risk management

3.1 Financial risk factors

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

(a) Foreign currency sensitivity

Science Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euro. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities.

To manage the Group's foreign exchange risk arising from commercial transactions, recognised assets and liabilities, entities in Science Group may use forward contracts and other instruments. Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group finance function is responsible for managing the net position in each foreign currency primarily by selling monies held in currency into GBP on a regular basis. At present, forward exchange contracts are not used.

Science Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

2016	US\$	Euro	Others	Total
£000				
Financial assets	3,697	735	-	4,432
Financial liabilities	(81)	(29)	-	(110)
Exposure	3,616	706	-	4,322

2015	US\$	Euro	Others	Total
£000				
Financial assets	3,849	1,352	-	5,201
Financial liabilities	(69)	(34)	-	(103)
Exposure	3,780	1,318	-	5,098

All foreign currency denominated financial assets and liabilities are classified as current.

The following table illustrates the sensitivity of the net movement on reserves and equity in regards to Science Group's financial assets and financial liabilities and the US Dollar/GBP exchange rate and Euro/GBP exchange rate. It assumes a +/- 10.0% change of the GBP/US Dollar exchange rate for the year ended 31 December 2016 (2015: 10.0%). A +/- 10.0% change is considered for the GBP/Euro exchange rate (2015: 10.0%).

If the GBP had strengthened against the US Dollar and Euro by 10.0% (2015: 10.0%) respectively then this would have had the following impact:

2016	US\$	Euro	Total
£000			
Income statement	(343)	(70)	(413)
Equity	(343)	(70)	(413)

2015	US\$	Euro	Total
£000			
Income statement	(356)	(126)	(482)
Equity	(356)	(126)	(482)

For a 10.0% weakening of GBP against the relevant currency, there would be a comparable but opposite impact on the income statement and equity.

The Company held no financial assets or liabilities in foreign currencies at the start or end of the year.

Notes to the Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Foreign currency sensitivity (continued)

The actual currency rate movement against the US Dollar and Euro at year end compared to the previous year end was -19.7% (2015: -5.6%) and -15.9% (2015: +5.2%) respectively. Exposures to foreign exchange rates vary during the year depending on the volume and value of overseas transactions.

(b) Interest rate sensitivity

Science Group manages its longer term cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, Science Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if Science Group borrowed at fixed rates directly. Under the interest rate swaps, Science Group agrees with other parties to exchange, at specified intervals (typically quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Science Group's bank borrowings and its interest rate profile are as follows:

Group	2016 £000	2015 £000
Pound Sterling – bank loan	14,750	7,750
Weighted average interest rate	%	%
Pound Sterling – fixed rate bank loan	3.47%	3.89%
Pound Sterling – floating rate bank loan	LIBOR+2.6%	LIBOR+2.0%

For benchmark rates of interest, Science Group refers to LIBOR.

The bank loan is secured via a fixed charge over certain assets of Science Group and is repayable as disclosed in Note 21. Terms and conditions of the interest rate swap are as disclosed in Note 21.

(c) Credit risk analysis

Science Group has policies in place to ensure that sales are made to clients with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions although counterparty risk is not negligible. Science Group has policies that limit the amount of credit exposure to any financial institution.

Science Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	Company		Group	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash and cash equivalents	5,377	1,724	25,996	14,516
Trade and other receivables	12,061	16,706	7,570	7,298
	17,438	18,430	33,566	21,814

Science Group monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Science Group's policy is to deal only with creditworthy counterparties or to require settlement in advance, although there can be no certainty that counterparty creditworthiness will be maintained. Cash balances are held with more than one creditworthy institution.

Management reviews the credit status of the financial institutions with whom it holds its deposits.

Science Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

An analysis of the age of trade and other receivables that are overdue but not impaired and an analysis of trade and other receivables that are considered to be impaired are disclosed in Note 16.

None of Science Group's financial assets are secured by collateral or other credit enhancements.

(d) Liquidity risk analysis

Science Group manages its liquidity needs by monitoring scheduled debt servicing payments for long term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a weekly and monthly basis. Long term liquidity needs for a quarterly and semi-annual period are reviewed monthly.

Notes to the Financial Statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk analysis (continued)

Science Group maintains cash to meet its liquidity requirements in interest bearing current accounts.

As at 31 December 2016, Science Group's financial liabilities have contractual maturities which are summarised below:

2016	Current		Non-current	
	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Bank borrowings	500	500	4,000	9,750
Interest on bank borrowings	252	247	1,650	912
Trade payables	765	-	-	-
Accruals	3,661	-	-	-
	5,178	747	5,650	10,662

This compares to the maturity of Science Group's financial liabilities in the previous reporting period as follows:

2015	Current		Non-current	
	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Bank borrowings	500	500	6,750	-
Other borrowings	17	17	3	-
Interest on bank borrowings	144	135	398	-
Trade payables	639	-	-	-
Accruals	3,159	-	-	-
Financial instruments	-	-	141	-
	4,459	652	7,292	-

(e) Summary of financial assets and liabilities by category

The carrying amounts of Science Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

	Company		Group	
	2016 £000	2015 £000	2016 £000	2015 £000
Loans and receivables:				
- Trade receivables	-	-	7,200	7,071
- Other receivables	12,061	16,706	370	227
- Cash and cash equivalents	5,377	1,724	25,996	14,516
	17,438	18,430	33,566	21,814
Financial liabilities at amortised cost:				
- Non-current borrowings	-	-	13,664	6,753
- Current borrowings	-	-	1,000	1,034
- Trade payables	26	4	765	639
- Accruals	86	157	3,661	3,159
	112	161	19,090	11,585
Derivatives used for hedging:				
- Financial instruments asset / (liability)	-	-	197	(141)
	-	-	197	(141)

The fair value of Science Group's financial assets and liabilities is the same as the carrying value.

Notes to the Financial Statements

3 Financial risk management (continued)

3.2 Fair value estimation

Financial assets and liabilities measured at fair value in the balance sheet are grouped into three levels based on the significance used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2 – inputs other than quoted market prices included within level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- level 3 – input for the asset or liability that are not based on observable market data (unobservable inputs)

The level within which the financial asset or liability is determined is based on the lowest level of significant input to the fair value measurement.

The Group has measured the interest rate swap at fair value, and it has been measured under level 2.

The Group's finance team performs valuations of financial items for financial reporting purposes in consultation with third party valuation specialists for complex valuations. The valuation technique used for instruments categorised in levels 2 and 3 is described below:

Interest rate swap: the fair value is estimated by discounting the future contracted cash flows, using readily available market data.

3.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital and to provide funds for merger and acquisition activity.

The Group primarily views its capital as being its shareholders' funds, net funds (being gross cash less borrowings) and the freehold properties at Harston Mill and Great Burgh.

	Group	
	2016 £000	2015 £000
Total shareholders' funds	36,003	37,231
Net funds (cash less borrowings)	11,332	6,729
Freehold property at Harston Mill	13,374	13,528
Freehold property at Great Burgh	8,508	7,366

Shareholders' funds

In 2016 Sagentia Limited paid a dividend distribution of £3.5 million to Science Group plc. In 2015 Sagentia Limited paid a dividend distribution of £3.5 million and OTM Consulting Limited paid a dividend distribution of £0.4 million to Science Group plc.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Board will recommend the payment of a dividend of 4.2 pence per share at the forthcoming AGM (2015: 4.0 pence). The Board anticipates recommending a single dividend being paid each year.

Net funds

The net funds of the Group have increased by £4.6 million in 2016 as set out in the Consolidated Statement of Cash Flows.

Details of the Group's borrowings are set out in Note 21 which summarises the terms of the loan and interest swap arrangement.

Freehold property

Details of freehold property and related rental income are set out in Note 14.

Notes to the Financial Statements

4 Segment information

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

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

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

Geographical segments

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

	2016		2015	
	Revenue £000	Non-current assets £000	Revenue £000	Non-current assets £000
United Kingdom	10,324	33,253	7,616	33,213
Other European countries	9,739	-	5,409	-
North America	15,710	3	17,244	-
Other	1,126	-	951	-
Total	36,899	33,256	31,220	33,213

For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based. Non-current assets are allocated based on their physical location.

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

Notes to the Financial Statements

5 Operating expenses

Expenses by nature		Group	
Year ended 31 December	Note	2016 £000	2015 £000
Employee remuneration and benefit expenses	7	20,517	17,699
Operating third party expenses		2,317	2,040
Occupancy costs		3,421	2,637
Equipment and consumables		1,198	788
Selling and marketing expenses		1,613	1,599
Depreciation of property, plant and equipment	14	745	520
Net loss on disposal of property, plant and equipment		59	-
Foreign currency gains		(310)	(5)
Amortisation and impairment of intangible assets		1,857	1,660
Impairment of other investments		50	-
Other		2,037	1,604
		33,504	28,542
Less expenses below adjusted operating profit		(2,821)	(2,646)
		30,683	25,896

Included above		Group	
		2016 £000	2015 (restated) £000
Research and development *		7,431	5,840
Operating lease rentals		522	431
Auditors' remuneration			
Services to the Company and its subsidiaries:			
Fees payable to the Company's auditors for the audit of the financial statements		10	10
Audit of the financial statements of the Company's subsidiaries pursuant to legislation		49	54
Fees payable to the Company's auditor for other non-audit services: Other audit-related advisory services		8	-

*R&D costs are represented by staff and material costs incurred in relation to R&D projects

The auditor's remuneration relate solely to amounts paid to KPMG LLP.

2015 has been restated to include property operating lease rentals.

6 Finance income and finance costs

Finance costs include all interest-related income and expenses through profit or loss. The following have been included in the income statement for the reporting periods presented:

		Group	
Year ended 31 December		2016 £000	2015 £000
Finance income			
Bank interest receivable and similar income		2	26
Change in fair value of interest rate swap		-	62
		2	88
Finance costs			
Bank borrowings		(354)	(326)
Change in fair value of interest rate swap		(75)	-
		(429)	(326)

Notes to the Financial Statements

7 Employee benefit expenses

Employment costs are shown below:

Year ended 31 December	Group	
	2016 £000	2015 £000
Wages and salaries (including bonuses and healthcare costs)	16,694	14,349
Social security costs	2,238	1,881
Sales commission	100	182
Pension costs	888	835
Share based payments (note 20)	597	452
	20,517	17,699

The average monthly number of persons employed (including Executive and Non-Executive Directors and fixed term contractors) by Science Group was as follows:

Year ended 31 December	Group	
	2016 Number	2015 Number
Technology consultants	257	202
Marketing, support, administration and other staff	63	62
	321	264

8 Directors' remuneration, interests and transactions

Directors' emoluments and benefits include:

Year ended 31 December 2016	Salary/ fee £000	Bonus £000	Pension contribution £000	Taxable Benefits £000	Discretionary payment £000	Total £000
Name of Director						
Courtley	35	-	-	-	-	35
Hemsted	135	44	9	1	-	189
Lacey-Solymar	35	-	-	-	-	35
Ratcliffe	385	-	-	-	-	385
Aggregate emoluments	590	44	9	1	-	644

Year ended 31 December 2015	Salary/ fee £000	Bonus £000	Pension contribution £000	Taxable Benefits £000	Discretionary payment £000	Total £000
Name of Director						
Courtley	35	-	-	-	-	35
Glover	41	-	-	-	-	41
Hemsted	118	31	8	1	-	158
Lacey-Solymar	35	-	-	-	-	35
Ratcliffe	275	-	-	-	50	325
Aggregate emoluments	504	31	8	1	50	594

Directors' emoluments and benefits are stated for the Directors of Science Group plc only. In addition to the above, a share based payment charge of £43,000 was recognised in the income statement relating to share options held by Directors (2015: £43,000).

The amounts shown were recognised as an expense during the year related to the Directors of the Company. Bonuses, pension and medical benefits are not paid to Non-Executive Directors. In the prior year, the Remuneration Committee awarded Martyn Ratcliffe a discretionary payment in acknowledgement of the substantial additional time required related to the integration of the acquisitions. Mr Ratcliffe does not participate in the Group bonus scheme.

Total social security costs related to Directors during the year was £83,000 (2015: £76,000).

The above figures for emoluments do not include any gains made on the exercise of share options received under long term incentive schemes. During 2015, Martyn Ratcliffe, Chairman of Science Group, exercised 2,500,000 share options at a price of 40.0 pence per share resulting in a gain of £2.8 million, although he retained 900,000 shares after payment of tax, resulting in a net incremental personal cash investment of £0.1 million.

Notes to the Financial Statements

8 Directors' remuneration, interests and transactions (continued)

Directors' interests in the shares of Science Group at 31 December 2016 and 31 December 2015, and any changes subsequent to 31 December 2016, are as follows:

Science Group plc Ordinary shares of £0.01	Options				Shares	
Year ended 31 December	2016	2015	2016	2015	2016	2015
	Average exercise price (pence)		Number	Number	Number	Number
Hemsted	1.0	1.0	200,000	175,000	-	-
Ratcliffe	-	-	-	-	13,412,906	13,412,906
Courtley	-	-	-	-	375,000	375,000
			200,000	175,000	13,787,906	13,787,906

See Note 20 for further details on option plans. Keith Glover retired from being a Director on 31 December 2015.

9 Income tax

The tax (charge)/credit comprises:

Year ended 31 December	Note	2016 £000	2015 £000
Current taxation		(131)	(114)
Current taxation – adjustment in respect of prior years		(42)	(9)
Deferred taxation	10	(657)	(334)
Deferred taxation – adjustment in respect of prior years		(64)	37
R&D tax credit		675	788
		(219)	368

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

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

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

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

Notes to the Financial Statements

10 Deferred tax

The movement in deferred tax assets and liabilities during the year by each type of temporary difference is as follows:

	Accelerated capital allowances £000	Tax losses £000	Share based payment £000	Acquisition related intangible assets £000	Other temporary differences £000	Total £000
At 1 January 2015	(2,007)	1,639	675	(172)	50	185
Acquisition of subsidiaries in the year	-	-	-	(953)	-	(953)
Charged to the income statement	35	(315)	(10)	-	(7)	(297)
Charged to equity	-	-	(268)	-	-	(268)
At 31 December 2015	(1,972)	1,324	397	(1,125)	43	(1,333)
Charged to the income statement	188	(973)	(28)	189	(33)	(657)
Charged to the income statement (prior year adjustment)	-	(64)	-	-	-	(64)
Charged to equity	-	-	(74)	-	-	(74)
At 31 December 2016	(1,784)	287	295	(936)	10	(2,128)

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

Company	Tax losses £000	Share based payment £000	Total £000
At 1 January 2015	6	417	423
Charged to the income statement	(6)	(360)	(366)
Charged to equity	-	(34)	(34)
At 31 December 2015	-	23	23
Charged to the income statement	-	10	10
Charged to equity	-	11	11
At 31 December 2016	-	44	44

The Company has available tax losses of approximately £2.3 million (2015: £2.2 million) and these losses do not expire.

Factors affecting future tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax at 31 December 2016 has been calculated based on these rates.

Notes to the Financial Statements

11 Earnings per share

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

	2016			2015		
	Profit after tax £000	Weighted average number of shares	Pence per share	Profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	2,749	40,542,379	6.8	2,808	39,228,135	7.2
Effect of dilutive potential ordinary shares: share options	-	1,094,273	(0.2)	-	1,911,427	(0.4)
Diluted earnings per ordinary share	2,749	41,636,652	6.6	2,808	41,139,562	6.8

Only the share options granted, as disclosed in Note 20, are dilutive. The number of shares in issue (excluding treasury shares) at 31 December 2016 is 39,328,794 (2015: 41,060,006).

The calculation of adjusted earnings per share is as follows:

	2016			2015		
	Adjusted* profit after tax £000	Weighted average number of shares	Pence per share	Adjusted* profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	4,631	40,542,379	11.4	4,056	39,228,135	10.3
Effect of dilutive potential ordinary shares: share options	-	1,094,273	(0.3)	-	1,911,427	(0.4)
Diluted earnings per ordinary share	4,631	41,636,652	11.1	4,056	41,139,562	9.9

*Calculation of adjusted profit after tax:

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

12 Dividends

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

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

Notes to the Financial Statements

13 Intangible assets

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

Reconciliation of amortisation and impairment to the Consolidated Income Statement:

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

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

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

Impairment review of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating profit margins.

Notes to the Financial Statements

13 Intangible Assets (continued)

Impairment review of goodwill (continued)

The Group prepares the cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates cash flows for the following three years based on forecast rates of growth or decline in revenue by the CGU. The operating profit margin for the CGU that is incorporated in the cash flow forecasts is derived from the most recent financial plan approved by the Board.

The Group monitors its post-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rates applying to CGUs, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows and are included in the table above.

Impairment testing for the OTM Consulting CGU

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

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the oil and gas industry and have been based on historical data from internal sources.

OTM Consulting CGU		
	2016	2015
Rate of growth/(decline) in revenue (average of next 4 years)	10.9%	(2.5)%
Rate of increase/(reduction) in operating costs (average of next 4 years)	3.8%	(1.7)%
Terminal value growth rate	2.25%	2.25%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

Sensitivity analysis

The Group has conducted a sensitivity analysis on the impairment test of OTM Consulting's goodwill carrying value. A decrease in the revenue growth by 1 percentage point in years 1 to 4 with all other variables remaining constant would increase the impairment by £78,000 (2015: £140,000). A increase in operating costs by 1 percentage point with all other variables remaining constant would increase the impairment by £268,000 (2015: £233,000). A decrease in the terminal value growth rate by 0.25 percentage point in years 1 to 4 with all other variables remaining constant would increase the impairment by £71,000 (2015: £65,000).

Impairment testing for the Oakland Innovation CGU

A review of the forecast future cash flows of Oakland Innovation, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the consumer industry and have been based on historical data from internal sources.

Oakland Innovation CGU		
	2016	2015
Rate of growth in revenue (average of next 4 years)	6.5%	5.8%
Rate of increase in operating costs (average of next 4 years)	6.5%	5.8%
Terminal value growth rate	2.25%	2.25%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to Oakland Innovation being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Notes to the Financial Statements

13 Intangible Assets (continued)

Impairment testing for the Leatherhead Research CGU

A review of the forecast future cash flows of Leatherhead Research, based on value in use estimated using discounted cash flows, indicated there was no impairment. The goodwill attributable to Leatherhead Research is not significant in comparison with the entity's total carrying amount of goodwill. A sensitivity analysis was performed and no reasonably possible change in the key assumptions resulted in the value of goodwill allocated to Leatherhead Research being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

14 Property plant and equipment

Group	Freehold land and buildings £000	Furniture and fittings £000	Equipment £000	Total £000
Cost				
At 1 January 2015	16,681	1,503	963	19,147
Exchange differences on cost	-	-	2	2
Additions	7,366	320	171	7,857
Additions through business combinations	-	3	249	252
Disposals	-	(3)	(38)	(41)
At 1 January 2016	24,047	1,823	1,347	27,217
Exchange differences on cost	-	-	8	8
Additions	1,216	1,036	303	2,555
Disposals	(67)	(169)	(457)	(693)
At 31 December 2016	25,196	2,690	1,201	29,087
Accumulated depreciation				
At 1 January 2015	3,091	859	739	4,689
Depreciation charge	62	262	196	520
Exchange differences on depreciation	-	-	2	2
Disposals	-	(3)	(31)	(34)
At 1 January 2016	3,153	1,118	906	5,177
Depreciation charge	169	309	267	745
Exchange differences on depreciation	-	-	8	8
Disposals	(8)	(169)	(459)	(636)
At 31 December 2016	3,314	1,258	722	5,294
Carrying amount				
At 31 December 2015	20,894	705	441	22,040
At 31 December 2016	21,882	1,432	479	23,793

In the prior year, Quadro Design Limited, a 100% subsidiary of Science Group plc, acquired a freehold property near Epsom, UK for £7.0 million. Directly attributable costs of £0.4 million were incurred and fixtures and fittings of £0.3 million were acquired. At 31 December 2015 the site was being developed and not in use and as a result no depreciation charge in the year ended 31 December 2015 was recognised. During the year ended 31 December 2016, the property was brought into use from which point depreciation commenced. This property was acquired solely for the use of Science Group. Included within land and buildings for Science Group is freehold land to the value of £500,000 (2015: £500,000) which has not been depreciated. This property was last formally valued at £8.0 million during May 2016 by Vail Williams LLP for Lloyds, subject to the assumption of full vacant possession.

The Harston property is held at cost less accumulated depreciation. Included within land and buildings for Science Group is freehold land to the value of £1,360,000 (2015: £1,360,000) which has not been depreciated. Cumulative interest capitalised up to 31 December 2003 was £340,000. No further interest has been capitalised since. The Harston property was last formally valued during August 2013 by Savills for Lloyds. Under the assumptions used, including tenant covenant strength and market rents, the indicative valuation range for the building was between £12.9 million based on occupational tenancies where the head lease is merged into the freehold interest, and £18.0 million under a sale and leaseback scenario.

The Harston property generated third party rental and services income of £1,079,000 (2015: £1,073,000). Of this income, £636,000 (2015: £619,000) was rental income and £443,000 (2015: £454,000) was services income. Services income includes, but is not limited to, utilities, cleaning, general maintenance and use of subsidised restaurant facilities.

Notes to the Financial Statements

14 Property plant and equipment (continued)

The total space on the Harston site available for business use is 97,000 sq ft. Of this space, the average total space let to third parties during 2016 was 31,300 sq ft (2015: 31,300 sq ft). The leases to tenants are typically for a 36 month term and normally have a termination notice period of 3 to 6 months. An average of 44,200 sq ft (2015: 44,200 sq ft) was used by the Group during the year for its business activities including office space and laboratory space and 20,000 sq ft are common areas. The remaining space of 1,500 sq ft (2015: 1,500 sq ft) was vacant during the year.

Given the continuing rental values and occupancy rates the Directors do not believe that the combined carrying value of the Harston and Epsom properties of £21,882,000 (2015: £20,894,000) is significantly different to its fair value.

The interest in both the Harston and Epsom freehold land and buildings have been charged as security to the bank loan (see Note 21).

Science Group plc had no fixed assets at the start or end of the year.

15 Investments

a) Investments in subsidiaries

Science Group held investments in the following subsidiaries at 31 December 2016.

	Registered office	Country of incorporation	Principal activity	Shares held	%
Subsidiaries of Science Group plc					
Consulting operations					
Sagentia Limited*	(1)	England	Consultancy	Ordinary	100
Sagentia Technology Advisory Limited*	(1)	England	Holding company	Ordinary	100
OTM Consulting Limited*	(1)	England	Consultancy	Ordinary	100
Quadro Design Limited*	(1)	England	Property	Ordinary	100
Manage5Nines Limited	(1)	England	IT Consultancy	Ordinary	100
Sagentia Inc.	(2)	USA	Consultancy	Ordinary	100
OTM Consulting Inc.	(3)	USA	Consultancy	Ordinary	100
Oakland Innovation Limited*	(1)	England	Consultancy	Ordinary	100
Leatherhead Research Limited*	(1)	England	Consultancy	Ordinary	100

* Direct subsidiaries of Science Group plc as at 31 December 2016

(1) Harston Mill, Royston Road, Harston, Cambridge, England, CB22 7GG

(2) Beacon Street, Suite 2300, Boston, USA, MA 02108

(3) Greenway Plaza, Suite 1100, Houston, USA, TX 77046

All subsidiaries for which accounts are provided have year ends of 31 December.

b) Other investments

Group	Total £000
Cost	
At 1 January 2015	-
Acquisition of investment	100
At 31 December 2015	100
At 31 December 2016	100
Impairment	
At 1 January 2015 and 1 January 2016	-
Impairment loss	50
At 31 December 2016	50
Carrying amount	
At 31 December 2015	100
At 31 December 2016	50

Notes to the Financial Statements

15 Investments (continued)

b) Other investments (continued)

At 31st December 2016, a subsidiary of Science Group plc holds 30% of the ordinary share capital of Creative (ID) Design Limited, a Cambridge-based industrial design consultancy, at a net book value of £50,000. The annual impairment test on investments resulted in an impairment of £50,000 being recognised against this investment. The recoverable amount of the investment was £50,000 (2015: £100,000) and was measured on the basis of value in use estimated using discounted cash flows.

The Directors do not consider that any of its investments are associates and to avoid a statement of excessive length, details of investments that are not significant have been omitted.

c) Company investments

	Total £000
Cost	
At 1 January 2015	16,818
Acquisitions through business combinations	5,000
Recapitalisation of subsidiaries	350
At 31 December 2015	22,168
At 31 December 2016	22,168
Impairment	
At 1 January 2015	-
Impairment loss	387
At 31 December 2015	387
Impairment loss	1,798
At 31 December 2016	2,185
Carrying amount	
At 31 December 2015	21,781
At 31 December 2016	19,983

An impairment loss of £1.8 million (2015: £0.4 million) was recognised during the year within operating expenses in the Company Income Statement. The impairment relates to the OTM Consulting Limited business and has arisen from a sustained deterioration in the oil & gas market that has continued longer than previously anticipated resulting in a reduction in forecast net future cash flows.

Refer to Note 13 for further information on the impairment reviews performed and the calculation of the recoverable amounts.

In the prior year, Science Group plc purchased the 100% subsidiary Quadro Design Limited from the 100% direct subsidiary Sagentia Limited for consideration of £1. In addition, Quadro Design Limited and Leatherhead Research Limited, 100% subsidiaries of Science Group plc, issued share capital of £250,000 and £100,000 respectively.

16 Trade and other receivables

	Company		Group	
	2016 £000	2015 £000	2016 £000	2015 £000
Current assets:				
Trade receivables	-	-	7,297	7,187
Provision for impairment	-	-	(97)	(116)
Trade receivables – net	-	-	7,200	7,071
Amounts recoverable on contracts	-	-	356	208
Other receivables	-	-	14	19
Amounts owed by Group undertakings	12,061	16,706	-	-
VAT	8	36	-	1,129
Prepayments	109	42	649	553
	12,178	16,784	8,219	8,980

All amounts disclosed above are receivable within 90 days.

Notes to the Financial Statements

16 Trade and other receivables (continued)

All of Science Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were considered to be impaired and a provision of £97,000 (2015: £116,000) has been provided at 31 December 2016. In addition, some of the unimpaired trade receivables are past due as at the reporting date.

	Group	
	2016 £000	2015 £000
Provision brought forward	116	67
Debts written off	(11)	(4)
Provision released	(41)	(63)
Provision made	33	116
Provision carried forward	97	116

The age of trade receivables overdue but not impaired is as follows:

	Group	
	2016 £000	2015 £000
Not more than 3 months	979	1,984
More than 3 months but not more than 6 months	-	8
	979	1,992

All impaired receivables are overdue by more than 60 days.

17 Cash and cash equivalents

	Company		Group	
	2016 £000	2015 £000	2016 £000	2015 £000
Short term bank deposits	37	37	37	45
Cash at bank and in hand	5,340	1,687	25,959	14,471
	5,377	1,724	25,996	14,516

18 Current liabilities

		Company		Group	
	Note	2016 £000	2015 £000	2016 £000	2015 £000
Trade and other payables - current					
Payments received on account		-	-	8,584	5,342
Trade payables		26	4	765	639
Other taxation and social security		101	48	941	719
VAT		-	-	367	-
Deferred income		-	-	895	830
Accruals		86	157	3,661	3,159
		213	209	15,213	10,689
Borrowings	21	-	-	1,000	1,034
		213	209	16,213	11,723

19 Non-current liabilities

		Group	
	Note	2016 £000	2015 £000
Borrowings	21	13,664	6,753
Interest rate swap		-	141
Deferred income tax liabilities		2,415	2,657
		16,079	9,551

Notes to the Financial Statements

20 Called-up share capital

	2016 £000	2015 £000
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	421	421
	Number	Number
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	42,062,035	42,062,035

The allotted, called-up and fully paid share capital of the Company as at 31 December 2016 was 42,062,035 shares (2015: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 39,328,794 (2015: 41,060,006). A reconciliation of treasury shares held by the Company is as follows:

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

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

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

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

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

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

Notes to the Financial Statements

20 Called-up share capital (continued)

Reconciliation of outstanding options	2016		2015	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At beginning of year	3,003,000	38.3	6,084,000	45.5
Granted during the year	485,000	1.2	414,000	1.0
Exercised during the year	(383,788)	73.2	(3,085,058)	47.3
Cancelled during the year	(1,097,313)	64.0	-	-
Lapsed during the year	(276,666)	4.1	(409,942)	38.9
At end of year	1,730,233	9.3	3,003,000	38.3

The options outstanding at 31 December 2016 had a weighted average contractual life of 8.0 years (2015: 7.4 years).

Included within the total outstanding options at 31 December 2016 are 411,200 options which are exercisable (2015: 1,411,500). The weighted average exercise price of exercisable options at the end of the year was 9 pence (2015: 38 pence).

Options exercised during the year had a weighted average share price at the date of exercise of 73 pence (2015: 47 pence).

Exercise of an option is subject to continued employment, and normally lapses within three months of leaving employment.

The fair values of options granted were determined using a variation of the Binomial Option Pricing model that takes into account factors specific to the share incentive plans including performance conditions. The performance conditions attached to options granted in the year are such that 50% of the options vest dependent on the Company achieving earnings per share targets and 50% are dependent on a total shareholder return performance condition. The performance conditions, which are market conditions, have been incorporated into the measurement by means of actuarial modelling. For options granted in the year, a risk free rate of 0.06% to 0.11% has been used and a dividend yield factor of 2.7% to 2.9%. The share price on the date the options were granted was 150 pence in August 2016 and 137 pence in September 2016. The other principal assumptions used in the valuation are set out in the table below. The underlying expected volatility was determined by reference to historical data of the Company's shares over the vesting period.

At 31 December 2016, options granted to subscribe for ordinary shares of the Company are as follows:

Date of grant	Option exercise period		Number of shares under option				Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
	From (a)	To	Approved	Unapproved	Incentive	Performance Share Plan				
Jul 2010	Jul 2013	Jul 2020	42,500	-	-	-	51.0	14.0	10	35%
Oct 2011	Oct 2014	Oct 2021	34,062	-	-	-	80.0	32.9	10	65%
Nov 2012	Nov 2015	Nov 2022	51,800	59,536	-	-	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	-	-	-	323,335	1.0	80.8	10	25%
Mar 2014	Mar 2017	Mar 2024	-	-	-	100,000	1.0	85.3	10	21%
Sep 2014	Sep 2017	Sep 2024	-	-	-	285,000	1.0	74.8	10	18%
Apr 2015	Apr 2018	Apr 2025	-	-	-	34,000	1.0	86.7	10	16%
Sep 2015	Sep 2018	Sep 2025	-	-	-	315,000	1.0	77.0	10	16%
Aug 2016	Aug 2019	Aug 2026	-	-	-	385,000	1.0	96.5	10	21%
Sep 2016	Sep 2019	Sep 2026	-	-	-	100,000	1.0	81.6	10	22%
			128,362	59,536	-	1,542,335				

(a) Subject to earlier exercise in certain limited circumstances.

For all options granted prior to 2013, the exercise price is also the share price at date of grant.

Notes to the Financial Statements

20 Called-up share capital (continued)

At 31 December 2015, options granted to subscribe for ordinary shares of the Company are as follows:

Date of grant	Option exercise period		Number of shares under option				Exercise Price (pence)	Fair Value of options (pence)	Life (years)	Volatility
	From (a)	To	Approved	Unapproved	Incentive	Performance Share Plan				
Dec 2007	Dec 2009	Dec 2017	-	73,539	-	-	45.0	28.8	10	58%
Nov 2008	Nov 2011	Nov 2018	10,000	-	-	-	17.5	9.9	10	42%
Jun 2010	Jun 2013	Jun 2020	-	-	-	-	40.0	8.0	10	35%
Jul 2010	Jul 2013	Jul 2020	55,000	-	26,461	-	51.0	14.0	10	35%
Oct 2011	Oct 2014	Oct 2021	102,249	152,751	-	-	80.0	32.9	10	65%
Nov 2012	Nov 2015	Nov 2022	314,902	676,598	-	-	86.0	18.6	10	40%
Sep 2013	Sep 2016	Sep 2023	-	-	-	797,500	1.0	80.8	10	25%
Oct 2013	Oct 2016	Oct 2023	-	-	-	-	1.0	86.5	10	25%
Mar 2014	Mar 2017	Mar 2024	-	-	-	100,000	1.0	85.3	10	21%
Sep 2014	Sep 2017	Sep 2024	-	-	-	300,000	1.0	74.8	10	18%
Apr 2015	Apr 2018	Apr 2025	-	-	-	49,000	1.0	86.7	10	16%
Sep 2015	Sep 2018	Sep 2025	-	-	-	345,000	1.0	77.0	10	16%
			482,151	902,888	26,461	1,591,500				

(a) Subject to earlier exercise in certain limited circumstances

For all options granted prior to 2013, the exercise price is also the share price at date of grant

21 Borrowings

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

Science Group plc had no bank borrowings at the start or end of the year.

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

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

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

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

Group	2016 £000	2015 £000
Within one year	1,000	1,000
Between 1 and 2 years	1,000	1,000
Between 2 and 5 years	3,000	5,750
Over 5 years	9,750	-
	14,750	7,750

Notes to the Financial Statements

21 Borrowings (continued)

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

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

Other borrowings relate to finance leases of £nil (2015: £37,000).

22 Commitments

a) Operating lease commitments

The minimum annual rentals under non-cancellable operating leases are as follows:

Group	2016 £000	2015 £000
- Within 1 year	315	323
- Between 1 and 5 years	80	297
	395	620

Operating lease commitments represent rentals payable by the Group for certain of its property, plant and equipment to the next lease break clause or to the end of the lease, whichever is sooner.

b) Other financial commitments

At 31 December 2016 the Group and the Company had other financial commitments of £nil (2015: £nil).

23 Contingent liabilities

At 31 December 2016, there were no contingent liabilities (2015: £nil).

24 Related party transactions

The Group provides support and consultancy services to its subsidiaries and made loans, all of which eliminate on consolidation, and are therefore not disclosed.

The Company held intercompany balances, and charged management fees as follows:

Company	2016 Loans £000	2016 Sale of goods and services £000	2015 Loans £000	2015 Sale of goods and services £000
Sagentia Limited	(12,061)	130	(15,983)	105
Sagentia Inc.	-	-	(24)	24
OTM Consulting Limited	-	65	(430)	30
Quadro Design Limited	-	-	-	-
Manage5Nines Limited	-	-	-	-
Sagentia Technology Advisory Limited	-	-	(3)	-
Oakland Innovation Limited	-	65	(54)	54
Leatherhead Research Limited	-	260	(212)	150
	(12,061)	520	(16,706)	363

During the year, the Group entered into transactions with Creative (ID) Design Limited ('Creative'). Creative has provided consultancy services to Sagentia Limited (a subsidiary of Science Group plc) and a cost of £70,000 was charged to Sagentia Limited (2015: £111,000). An accrual of £19,000 was outstanding at year end (2015: £12,000). In addition to this, Sagentia Limited has provided consultancy services to Creative and a cost of £2,500 was charged to Creative (2015: £nil). Also, Creative has a licensing agreement in place with Sagentia Limited to occupy office space. During the year ended 31 December 2016, £25,900 was charged to Creative in relation to this agreement (2015: £6,600). A trade receivable of £nil was outstanding at year end (2015: £nil).

During 2015, Science Group plc entered into transactions with Microgen plc. The Chairman of Science Group plc, Martyn Ratcliffe, was Chairman of, and equity holder, in Microgen plc in 2015. An employee of Sagentia Limited (a subsidiary of Science Group plc) provided administrative services to Microgen plc during the year and a cost of £10,800 was charged to Microgen plc. In 2016, no transactions were entered into with Microgen plc. In addition, the Chairman of Science Group plc, Martyn Ratcliffe, retired as Chairman of Microgen plc in March 2016.

Notes to the Financial Statements

24 Related party transactions (continued)

Science Group plc also entered into a transaction with Clinitech Limited ('Clinitech'). One of the Directors of Science Group plc, Michael Lacey-Solymar, is also a Director of Clinitech and Director and Shareholder of Clinitech's ultimate parent company. Sagentia Limited (a subsidiary of Science Group plc) entered into an agreement with Clinitech on 26 September 2014 to lease office space to Clinitech. During the year ended 31 December 2016, £5,000 (2015: £5,600) was charged to Clinitech in relation to this agreement. A trade receivable of £nil was outstanding at year end (2015: £nil).

The remuneration of the key management personnel of the Group, recognised in the income statement, is set out below in aggregate. Key management personnel include all members of the plc Board and the Operating Board of Science Group.

Aggregate remuneration

Year ended 31 December	2016 £000	2015 £000
Short-term employee benefits	1,496	1,419
Pension costs	49	51
Share based payment transactions	119	92
	1,664	1,562

25 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Science Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Critical accounting estimate

Project accounting

Science Group undertakes a number of consultancy projects where the final price to complete the project may be uncertain. The state of completeness of each project, and hence revenue recognised, requires the use of estimates. The value of work done is calculated based on proportion of time spent on the project or value of stage gates achieved as set out in the project. Management apply their judgement in assessing time required to complete the projects and the ability to recover the full project costs. Where significant uncertainty exists, income is deferred until costs are recovered or the project is completed.

(b) Significant accounting judgement

Accounting for freehold property at Harston Mill

Science Group owns and maintains the freehold property at Harston Mill for use in the supply of its Core consultancy services and for administrative purposes.

Whilst there is remaining space on site not required to fulfil these activities, Science Group lets out space to third party tenants. The revenues and costs attributable to this activity are disclosed as third party property income activities within the business segment disclosures. It is not accounted for as an investment property, the reasons being:

- (i) the third party leases include the use of common areas and because of this the areas that are leased to third parties could not be sold separately;
- (ii) the leases normally have notice periods of no more than six months giving Science Group the flexibility to start using the areas if required, i.e. the leased areas are not held for capital appreciation or a return of investment through rental income.

26 Post balance sheet events

There are no post balance sheet events to disclose.